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Legislative Audit Division

State of Montana

Report to the Legislature

March 2000

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1999

Montana Single Audit Report

This document is prepared in accordance with the federal Single Audit Act Amendments of 1996 and OMB Circular A-133. It contains the auditor's reports on Montana's General Purpose Financial Statements and Schedules of Expenditures of Federal Awards for the fiscal years ended June 30, 1998 and 1999 as well as Reports on Internal Controls and Compliance, the Schedule of Findings and Questioned Costs, the Corrective Action Plan, and the Summary Schedule of Prior Audit Findings.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
PO Box 200802
Helena MT 59620-0802
Phone (406) 444-3616

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Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

March 2000

The Legislative Audit Committee
of the Montana State Legislature:

This is our Single Audit Report of the state of Montana for the two fiscal years ended June 30, 1999. This document contains the independent auditor's reports on the state of Montana's General Purpose Financial Statements and Schedules of Expenditures of Federal Awards for the fiscal years ended June 30, 1998 and 1999. It also contains reports on the state of Montana's internal controls and compliance with federal and state laws and regulations, a Schedule of Findings and Questioned Costs, a Corrective Action Plan, and a Summary Schedule of Prior Audit Findings. The Single Audit was conducted in accordance with *Government Auditing Standards* and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Nonprofit Organizations.

The review disclosed certain questioned costs and deficiencies, which are summarized in the Schedule of Findings and Questioned Costs in this document. Agency management has responded to the audit findings, and the responses are included in the Corrective Action Plan prepared by the Office of Budget and Program Planning. Findings previously reported in the state of Montana's Single Audit Report for the two fiscal years ended June 30, 1997, that would be reported under OMB Circular A-133 are included in the Summary Schedule of Prior Audit Findings, which was also prepared by the Office of Budget and Program Planning.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Legislative Audit Division

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1999

Montana Single Audit Report

All financial compliance audit staff were involved in the individual agency audits and statewide audits supporting this audit report. Staff involved in incorporating results from individual agency audits and statewide audits into this audit report include Jody Brandt, Geri Hoffman, Christopher D. May, Charles Nemec, and Jennifer Solem.

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Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying Combined Balance Sheet All Fund Types, Account Groups and Discretely Presented Component Units, Combining Balance Sheet - Component Units - Proprietary Fund Types, Combining Statement of Plan Net Assets - Component Units - Pension Trust Funds, and Combining Balance Sheet - Component Units - All Higher Education Funds of the state of Montana as of June 30, 1999, and the related Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds, Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance General and Special Revenue Fund Types, Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances - All Proprietary Fund Types, Similar Trust Funds and Discretely Presented Component Units, Combining Statement of Revenues, Expenses and Changes in Retained Earnings - Component Units - Proprietary Fund Types, Statement of Changes in Plan Net Assets - Investment Trust Fund, Combining Statement of Changes in Plan Net Assets - Component Units - Pension Trust Funds, Statement of Changes in Fund Balance - Component Units - All Higher Education Funds, Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes - Component Units - Higher Education Fund Type and the related Combined Statement of Cash Flows - All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units and Combining Statement of Cash Flows - Component Units - Proprietary Fund Types for the year then ended. These general purpose financial statements are the responsibility of the state of Montana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which statements reflect total assets of 9.75 percent, liabilities of 12.68 percent, and total revenues/transfers-in and expenses/transfers-out of 29.47 percent and 29.59 percent, respectively, in the Enterprise Fund. This financial activity was audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery, is based solely upon the report of another auditor.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management,

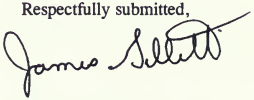
as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the report of another auditor provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the report of another auditor, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the state of Montana as of June 30, 1999, and the results of its operations, the cash flows of its proprietary and nonexpendable trust fund types and discretely presented component units, the changes in plan net assets of the investment trust fund, and its component unit pension trust funds and the changes in fund balance and current funds revenues, expenditures, transfers and other changes of the component unit higher education funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 1999, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The Year 2000 Issues (Y2K) is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

November 18, 1999

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State of Montana
Combined Balance Sheet
All Fund Types, Account Groups and Discretely Presented Component Units
June 30, 1999
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
ASSETS/OTHER DEBITS	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE
Assets:						
Cash/Cash Equivalents (Note 4)	$ 141,369	$ 223,737	$ 32,424	$ 58,035	$ 23,378	$ 19,981
Receivables (Net of Uncollectibles)	86,575	72,677	1,632	1,303	20,399	672
Interfund Loans Receivable (Note 13)	23,760	61,786	-	-	165	-
Due from Other Governments	5,701	137,607	-	-	-	20
Due from Primary Government (Note 13)	-	-	-	-	-	-
Due from Component Units (Note 13)	10,394	317	-	108	128	2,072
Due from Other Funds (Note 13)	37,937	21,275	230	681	517	5,999
Inventories	3,184	34,318	-	-	6,623	870
Equity in Pooled Investments (Note 4)	-	9,511	-	-	-	-
Long-Term Loans/Notes Receivable	-	56,221	34,910	-	53,943	-
Advances to Other Funds (Note 13)	9,525	136	-	-	-	-
Investments (Note 4)	-	47,028	2,995	-	9,998	33,946
Securities Lending Collateral (Note 4)	-	10,596	1,129	2,793	2,365	13,107
Land	-	-	-	-	800	236
Buildings/Improvements	-	-	-	-	5,484	561
Equipment	-	-	-	-	6,691	127,234
Other Fixed Assets	-	-	-	-	1,147	-
Construction in Progress	-	-	-	-	352	1,175
Accumulated Depreciation	-	-	-	-	(5,783)	(70,179)
Intangible Assets	-	-	-	-	1,299	598
Deferred Charges	-	-	-	-	963	-
Other Assets	4,580	3,030	-	31	2,150	197
Other Debits:						
Amount Available - Debt Service Funds	-	-	-	-	-	-
Resources to be Provided in Future Years	-	-	-	-	-	-
TOTAL ASSETS/OTHER DEBITS	$ 323,025	$ 678,239	$ 73,320	$ 62,951	$ 130,619	$ 136,489

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUND TYPES TRUST AND AGENCY	ACCOUNT GROUPS GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	COMPONENT UNITS PROPRIETARY FUND TYPES	PENSION TRUST FUNDS	HIGHER EDUCATION FUNDS
$ 792,169	$ -	$ -	$ 42,227	$ 156,370	$ 113,809
90,942	-	-	28,394	32,838	38,142
-	-	-	-	70	3,580
12	-	-	-	-	11,847
-	-	-	1,934	8,634	2,616
442	-	-	-	-	-
15,666	-	-	294	7,032	30,687
-	-	-	33	-	4,090
998,786	-	-	-	4,892,245	3,826
3,124	-	-	466,133	446	258
30	-	-	-	-	319
252,838	-	-	707,068	379,495	3,299
194,316	-	-	98,956	408,809	4,107
51,260	62,186	-	-	60	13,511
-	328,806	-	-	435	503,493
-	63,478	-	2,658	152	100,797
-	49,650	-	-	-	88,216
-	38,134	-	-	-	67,921
-	-	-	(1,543)	(370)	-
-	-	-	7,052	660	3,271
-	-	-	5,805	-	2,231
19,006	-	-	939	-	7,128
-	-	35,841	-	-	-
-	-	377,886	-	-	-
$ 2,418,591	$ 542,254	$ 413,727	$ 1,359,950	$ 5,886,876	$ 1,003,148

(Continued on Next Page)

STATE OF MONTANA
Combined Balance Sheet - Continued
All Fund Types, Account Groups and Discretely Presented Component Units
June 30, 1999
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
LIABILITIES/EQUITY/OTHER CREDITS	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE
Liabilities:						
Accounts Payable	$ 102,691	$ 151,835	$ 54	$ 4,021	$ 4,959	$ 4,278
Lottery Prizes Payable	-	-	-	-	3,357	-
Interfund Loans Payable (Note 13)	-	84,775	-	218	244	190
Advances from Other Funds (Note 13)	-	9,691	-	-	-	-
Due to Other Governments	30,795	7,175	-	-	11	-
Due to Primary Government (Note 13)	-	-	-	-	-	-
Due to Component Units (Note 13)	7,123	2,232	-	45	5	51
Due to Other Funds (Note 13)	19,599	26,988	1,386	1,237	10,672	2,469
Deferred Revenue	32,036	26,143	-	-	3,324	1,012
Lease/Installment Purchase Payable (Note 11)	-	-	-	-	5,025	4,728
Bonds/Notes Payable (Net) (Note 12)	-	-	-	-	65,034	4,709
Property Held in Trust	756	2,770	-	6	272	36
Securities Lending Liability (Note 4)	-	10,596	1,129	2,793	2,365	13,107
Compensated Absences Payable (Note 1)	-	-	-	-	800	3,337
Estimated Insurance Claims (Note 9)	-	-	-	-	2,306	25,881
Early Retirement Benefits Payable (Note 12)	-	-	-	-	-	-
Arbitrage Rebate Tax Payable	-	-	-	-	171	-
Other Liabilities	-	13	-	-	-	-
Total Liabilities	193,000	322,218	2,569	8,320	98,545	59,798
Equity/Other Credits:						
Investment in General Fixed/Plant Assets	-	-	-	-	-	-
Contributed Capital (Note 17)	-	-	-	-	4,413	7,335
Retained Earnings:						
Reserved for Debt Service	-	-	-	-	-	-
Unreserved	-	-	-	-	27,661	69,356
Fund Balances:						
Reserved for Encumbrances	3,079	30,417	-	994	-	-
Reserved for Inventories	3,184	22,715	-	-	-	-
Reserved for Long-Term Loans	-	56,221	34,910	-	-	-
Reserved for Long-Term Advances (Note 13)	9,525	136	-	-	-	-
Reserved for Debt Service	-	-	6,248	-	-	-
Reserved for Trusts/Endowments (Note 15)	-	6,552	-	-	-	-
Reserved for Federal Loans	-	10,586	-	-	-	-
Reserved for Construction	-	-	-	-	-	-
Reserved for Pool Participants	-	-	-	-	-	-
Reserved for Employee Pension Benefits	-	-	-	-	-	-
Unreserved, Designated	4,563	2,463	29,593	-	-	-
Unreserved, Undesignated	109,674	226,931	-	53,637	-	-
Total Equity/Other Credits	130,025	356,021	70,751	54,631	32,074	76,691
TOTAL LIABILITIES/EQUITY/OTHER CREDITS	$ 323,025	$ 678,239	$ 73,320	$ 62,951	$ 130,619	$ 136,489

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUND TYPES TRUST AND AGENCY	ACCOUNT GROUPS GENERAL FIXED ASSETS	ACCOUNT GROUPS GENERAL LONG-TERM OBLIGATIONS	COMPONENT UNITS PROPRIETARY FUND TYPES	COMPONENT UNITS PENSION TRUST FUND	COMPONENT UNITS HIGHER EDUCATION FUNDS
$ 13,457	$ -	$ -	$ 5,324	$ 1,143	$ 31,915
-	-	-	-	-	-
284	-	-	-	70	3,580
-	-	-	-	-	319
-	-	-	-	28	617
-	-	-	10,837	181	2,443
3,728	-	-	-	-	-
27,384	-	-	286	341	29,956
29	-	-	19,819	54	8,809
-	-	1,380	-	227	1,157
-	-	360,368	529,500	-	217,784
213,727	-	-	425	20	4,282
194,316	-	-	98,956	408,809	4,107
-	-	50,941	973	172	32,844
-	-	-	433,564	-	-
-	-	231	-	-	58
-	-	807	101	-	-
2,345	-	-	-	-	-
455,270	-	413,727	1,099,785	411,045	337,871
-	542,254	-	-	-	572,322
-	-	-	154,468	-	-
-	-	-	99,646	-	-
-	-	-	6,051	-	-
-	-	-	-	-	577
-	-	-	-	-	-
3,111	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	2,236
1,320,410	-	-	-	-	34,925
-	-	-	-	-	-
-	-	-	-	-	5,595
468,787	-	-	-	-	-
-	-	-	-	5,475,831	-
-	-	-	-	-	-
171,013	-	-	-	-	49,622
1,963,321	542,254	-	260,165	5,475,831	665,277
$ 2,418,591	$ 542,254	$ 413,727	$ 1,359,950	$ 5,886,876	$ 1,003,148

STATE OF MONTANA
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds
For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST
REVENUES:					
Licenses/Permits	$ 29,383	$ 88,567	$ -	$ -	$ -
Taxes:					
Natural Resource	20,423	31,610	848	4,524	-
Individual Income	483,032	-	-	-	-
Corporate Income	78,943	10,681	-	-	-
Property	201,635	8,109	-	-	-
Fuel	-	181,090	-	-	-
Payroll	446	-	-	-	-
Other (Note 1)	100,608	67,743	-	1,915	-
Charges for Services/Fines/Forfeits/Settlements	25,337	122,915	1,194	730	95
Investment Earnings	17,060	8,309	7,096	1,104	23,791
Securities Lending Income	5,989	511	235	106	811
Sale of Documents/Mdse./Property	296	3,882	2,706	-	-
Rentals/Leases/Royalties	63	357	-	-	-
Contributions/Premiums	-	4,451	-	-	69,987
Grants/Contracts/Donations	1,256	11,050	-	-	1,132
Federal	17,687	953,124	132	-	3,744
Federal Indirect Cost Recoveries	80	1,842	-	-	-
Other Revenues	1,872	3,310	-	48	-
Total Revenues	984,110	1,497,551	12,211	8,427	99,560
Intrafund Revenues	(56)	(9,227)	-	-	-
Net Revenues	984,054	1,488,324	12,211	8,427	99,560
EXPENDITURES:					
Current:					
General Government	65,100	57,677	6	12,300	7,161
Public Safety/Corrections	104,676	81,609	-	555	-
Transportation	384	381,300	-	-	18
Health/Social Services	227,558	610,111	-	-	-
Education/Cultural	484,252	106,607	-	-	119
Resource Development/Recreation	22,453	75,915	-	49	535
Economic Development/Assistance	15,567	103,987	-	922	60,188
Debt Service:					
Principal Retirement	1,120	10,940	25,014	-	-
Interest/Fiscal Charges	1,489	2,850	16,853	35	-
Capital Outlay	1,831	26,201	-	45,975	253
Securities Lending	5,664	488	224	101	777
Total Expenditures	930,094	1,457,685	42,097	59,937	69,051
Intrafund Expenditures	(56)	(9,227)	-	-	-
Net Expenditures	930,038	1,448,458	42,097	59,937	69,051
Excess of Rev. Over (Under) Expend.	54,016	39,866	(29,886)	(51,510)	30,509
OTHER FINANCING SOURCES (USES):					
Loan Proceeds	-	2,709	-	-	-
Bond Proceeds	-	4,103	-	16,990	-
Inception of Lease/Installment Contract	85	111	-	-	-
General Fixed Asset Sale Proceeds	87	68	-	-	-
Operating Transfers In (Note 13)	87,600	36,130	29,298	9,687	-
Transfers from Component Units (Note 13)	10,000	-	-	-	-
Operating Transfers Out (Note 13)	(10,022)	(51,598)	(2,247)	(3,825)	(332)
Operating Transfers to Component Units (Note 13)	(104,135)	(14,728)	-	-	-
Total Other Financing Sources (Uses)	(16,385)	(23,205)	27,051	22,852	(332)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses	37,631	16,661	(2,835)	(28,658)	30,177
FUND BALANCES - JULY 1 - as Previously Reported	88,732	332,337	73,472	83,461	320,964
Prior Penod Adjustments (Note 3)	2,519	8,459	12	-	(1)
FUND BALANCES - July 1 - As Restated	91,251	340,796	73,484	83,461	320,963
Increase (Decrease) in Inventories	1,143	(1,504)	-	-	-
Residual Equity Transfers (Note 13)	-	68	102	(172)	-
FUND BALANCES - JUNE 30	$ 130,025	$ 356,021	$ 70,751	$ 54,631	$ 351,140

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance
General and Special Revenue Fund Types
For the Fiscal Year Ended June 30, 1999
(Expressed In Thousands)

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
REVENUES:						
Licenses/Permits	$ 27,709	$ 29,291	$ 1,582	$ 87,674	$ 89,114	$ 1,440
Taxes:						
Natural Resource	21,831	20,112	(1,719)	47,164	29,378	(17,786)
Individual Income	405,382	485,077	79,695	-	-	-
Corporate Income	63,677	78,943	15,266	12,000	9,482	(2,518)
Property	236,701	201,762	(34,939)	8,519	5,152	(3,367)
Fuel	-	-	-	182,932	181,090	(1,842)
Payroll	563	446	(117)	-	-	-
Other	93,546	103,687	10,141	60,799	68,648	7,849
Charges for Services/Fines/Forfeits	21,534	22,884	1,350	83,802	85,723	1,921
Investment Earnings	12,411	16,107	3,696	5,352	4,684	(668)
Sale of Documents/Merchandise/Property	256	295	39	4,561	3,797	(764)
Rentals/Leases/Royalties	92	43	(49)	159	302	143
Contributions/Premiums	-	-	-	4,400	4,451	51
Grants/Contracts/Donations	1,086	1,255	169	11,922	8,017	(3,905)
Federal	21,747	17,921	(3,826)	999,505	904,924	(94,581)
Federal Indirect Cost Recoveries	50	55	5	1,776	1,839	63
Other Revenues	140	764	624	1,260	2,595	1,335
Total Revenues	906,725	978,642	71,917	1,511,825	1,399,196	(112,629)
EXPENDITURES:						
Current:						
General Government	68,476	65,098	3,378	85,147	56,870	28,277
Public Safety/Corrections	106,011	104,876	1,135	120,384	81,459	38,925
Transportation	384	384	-	398,667	396,815	1,852
Health/Social Services	229,215	228,246	969	611,992	548,117	63,875
Education/Cultural	493,052	484,252	8,800	115,040	106,276	8,764
Resource Development/Recreation	23,453	22,190	1,263	100,230	82,176	18,054
Economic Development/Assistance	16,225	15,526	699	132,871	110,103	22,768
Debt Service						
Principal Retirement	1,144	1,144	-	1,142	1,141	1
Interest/Fiscal Charges	1,776	1,776	-	417	401	16
Capital Outlay	1,911	1,878	33	27,512	24,132	3,380
Total Expenditures	941,647	925,370	16,277	1,593,402	1,407,490	185,912
Excess of Rev. Over (Under) Expend.	(34,922)	53,272	88,194	(81,577)	(8,294)	73,283
OTHER FINANCING SOURCES (USES):						
Loan Proceeds	-	-	-	3,165	3,103	(62)
Bond Proceeds	-	286	286	6,565	5,104	(1,461)
General Fixed Asset Sale Proceeds	100	87	(13)	80	43	(37)
Operating Transfers In	95,581	49,415	(46,166)	27,860	20,127	(7,733)
Transfers from Component Units	10,000	10,000	-	-	-	-
Operating Transfers Out	(14,789)	(10,097)	4,692	(85,229)	(21,835)	63,394
Transfers to Component Units	(104,135)	(104,135)	-	(14,728)	(14,728)	-
Total Other Financing Sources (Uses)	(13,243)	(54,444)	(41,201)	(62,287)	(8,186)	54,101
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (Budgetary Basis)	(48,165)	(1,172)	46,993	(143,864)	(16,480)	127,384
RECONCILIATION OF BUDGETARY/GAAP REPORTING:						
1. Adjust expenditures for encumbrances	-	(154)	(154)	-	28,515	28,515
2. Adjustments for nonbudgeted activity	-	38,632	38,632	-	4,603	4,603
3. Intrafund elimination - Revenues/Transfers In	-	(77)	(77)	-	(81,556)	(81,556)
4. Intrafund elimination - Expenditures/Transfers Out	-	77	77	-	81,556	81,556
5. Securities Lending Income	-	5,989	5,989	-	511	511
6. Securities Lending Costs	-	(5,664)	(5,664)	-	(488)	(488)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (GAAP Basis)	(48,165)	37,631	85,796	(143,864)	16,661	160,525
UNRESERVED FUND BALANCES - JULY 1	73,290	73,290	-	229,218	207,933	(21,285)
Residual Equity Transfers (Note 13)	-	-	-	(257)	68	325
Prior Period Adjustments (Note 3)	-	2,519	2,519	-	8,459	8,459
Decrease (Increase):						
Encumbrances Reserve	-	382	382	-	6,234	6,234
Advances to Other Funds Reserve	-	406	406	-	127	127
Long-Term Loans Reserve	-	9	9	-	(11,734)	(11,734)
Trusts/Endowments Reserve (Note 15)	-	-	-	-	1,646	1,646
UNRESERVED FUND BALANCES - JUNE 30	$ 25,125	$ 114,237	$ 89,112	$ 85,097	$ 229,394	$ 144,297

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Statement of Changes in Plan Net Assets
Investment Trust Fund
For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	STIP TRUST
ADDITIONS:	
Contributions	$ 728,925
Net Investment Earnings:	
Investment Earnings	23,102
Securities Lending Income	1,609
Securities Lending Expense	(1,533)
Total Additions	752,103
DEDUCTIONS:	
Local Government Stip Distributions	714,440
Net Increase (Decrease)	37,663
Net Assets Held in Trust for Pool Participants - July 1	431,124
Net Assets Held in Trust for Pool Participants - June 30	$ 468,787

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances
All Proprietary Fund Types, Similar Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
OPERATING REVENUES:				
Charges for Services	$ 77,577	$ 73,066	$ 5,901	$ 423
Investment Earnings	1,387	2,310	27,811	32,346
Securities Lending Income	140	581	8,291	5,319
Financing Income	3,320	-	-	32,210
Contributions/Premiums	7,410	80,136	-	70,082
Grants/Contracts/Donations	28	-	1	-
Taxes	11,029	-	20,261	28,891
Rentals/Leases/Royalties	-	-	21,027	-
Other Operating Revenues	2,185	588	9	30
Total Operating Revenues	103,076	156,681	83,301	169,301
Intrafund Revenues	-	(62)	-	-
Net Operating Revenues	103,076	156,619	83,301	169,301
OPERATING EXPENSES:				
Personal Services	6,649	24,971	-	10,043
Contractual Services	1,637	11,771	-	7,013
Supplies/Materials	32,184	13,282	-	814
Benefits/Claims (Note 3)	8,422	75,402	-	(2,545)
Depreciation	542	8,547	-	257
Amortization	50	117	-	376
Utilities/Rent	465	5,645	-	200
Communications	979	10,595	-	524
Travel	175	324	1	183
Repair/Maintenance	716	5,448	-	425
Grants	-	-	13	-
Lottery Prize Payments	15,050	-	-	-
Lottery Ticket Expense	4,965	-	-	-
Interest Expense	3,228	625	-	35,133
Securities Lending Expense	133	551	7,948	5,087
Dividends	-	-	-	9,992
Arbitrage Rebate Tax	(299)	-	-	34
Other Operating Expenses	1,636	1,626	2	1,835
Total Operating Expenses	76,532	158,904	7,964	69,371
Intrafund Expenses	-	(62)	-	-
Net Operating Expenses	76,532	158,842	7,964	69,371
Operating Income (Loss)	26,544	(2,223)	75,337	99,930
NONOPERATING REVENUES (EXPENSES):				
Gain (Loss) Sale of Fixed Assets	(1)	(53)	-	(1)
Increase (Decrease) Value of Livestock	(38)	-	-	-
Federal Indirect Cost Recoveries	-	2,461	-	-
Total Nonoperating Revenues (Expenses)	(39)	2,408	-	(1)
Income (Loss) Before Operating Transfers	26,505	185	75,337	99,929
Operating Transfers In (Note 13)	73	717	26	-
Operating Transfers Out (Note 13)	(25,747)	(831)	(71,751)	-
Operating Transfers to Primary Government (Note 13)	-	-	-	(10,000)
Operating Transfers to Component Units (Note 13)	(45)	-	(2,093)	-
Income (Loss) Before Extraordinary Item	786	71	1,519	89,929
Extraordinary Loss on Legal Settlement	(350)	-	-	-
Net Income (Loss)	436	71	1,519	89,929
RETAINED EARNINGS/FUND BALANCES - July 1				
As Previously Reported	27,261	71,229	1,140,013	15,762
Prior Period Adjustments (Note 3)	(36)	(1,944)	1,862	6
RETAINED EARNINGS/FUND BALANCES - July 1				
As Restated	27,225	69,285	1,141,875	15,768
Residual Equity Transfers (Note 13)	-	-	-	-
RETAINED EARNINGS/FUND BALANCES - JUNE 30	$ 27,661	$ 69,356	$ 1,143,394	$ 105,697

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Cash Flows
All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1999
(Expressed In Thousands)

	PROPRIETARY FUND TYPES			COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Sales and Services	$ 83,213	$ 151,648	$ 5,592	$ 69,624
Collections of Principal and Interest on Loans	-	-	-	98,344
Cash Payments for Loans	-	-	-	(95,050)
Payments to Suppliers for Goods and Services	(43,579)	(48,588)	-	(11,385)
Payments to Employees	(6,483)	(24,507)	-	(9,799)
Grant Receipts	28	2,603	-	-
Grant Payments	-	-	(13)	-
Cash Payments for Claims	(7,619)	(76,582)	-	(69,297)
Collections of Notes Receivable	-	-	-	2
Collections of Payroll Taxes	-	-	-	31,003
Cash Payments for Prizes	(14,970)	-	-	-
Scholarship/Fellowship Payments	-	-	(3)	-
Other Operating Revenues	2,073	477	9	55
Other Operating Payments	-	-	-	(9,992)
Net Cash Provided by (Used for) Operating Activities	12,663	5,051	5,585	3,505
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Payment of Principal and Interest on Bonds and Notes	(6,167)	(1,603)	-	(95,644)
Proceeds from Issuance of Bonds and Notes	4,864	502	-	66,625
Payment of Bond Issuance Costs	-	-	-	(922)
Collection of Taxes	11,029	-	18,955	-
Transfers to Primary Government	-	-	-	-
Transfers to Other Funds	(24,455)	(185)	(102,707)	-
Transfers to Component Units	(45)	-	(2,093)	-
Transfers from Other Funds	80	469	26	-
Proceeds from Interfund Loans	294	499	(8)	-
Payment of Interfund Loans	(380)	(1,286)	-	-
Contributed Capital Transfers from Other Funds	-	144	-	-
Net Cash Provided by (Used for) Noncapital Financing Activities	(14,780)	(1,460)	(85,827)	(29,941)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of Fixed Assets	(624)	(6,873)	-	(786)
Proceeds from Sale of Fixed Assets	2	592	-	7
Principal and Interest Payments on Bonds and Notes	(1)	(2,125)	-	-
Net Cash Used for Capital and Related Financing Activities	(623)	(8,406)	-	(779)
CASH FLOW FROM INVESTING ACTIVITIES:				
Purchase of Investments	(4,190)	(16,972)	(70,419)	(704,202)
Proceeds from Sales or Maturities of Investments	9,376	21,029	40,157	691,581
Proceeds from Securities Lending Transactions	142	597	8,291	5,387
Interest and Dividends on Investments	1,462	3,046	77,428	51,706
Payment of Securities Lending Costs	(135)	(569)	(7,947)	(5,163)
Collections of Principal and Interest on Loans	24,211	-	-	68
Cash Payments for Loans	(24,243)	-	-	-
Arbitrage Rebate Tax	(99)	-	-	(185)
Collection of Rents/Leases/Royalties	-	-	20,995	-
Net Cash Provided by (Used for) Investing Activities	6,524	7,131	68,505	39,192
Net Increase (Decrease) in Cash and Cash Equivalents	3,784	2,316	(11,737)	11,977
Cash and Cash Equivalents, July 1	19,594	17,665	51,172	30,250
CASH AND CASH EQUIVALENTS, JUNE 30	$ 23,378	$ 19,981	$ 39,435	$ 42,227

The notes to the financial statements are an integral part of this statement.

	PROPRIETARY FUND TYPES			COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating Income (Loss)	$ 26,544	$ (2,223)	$ 75,337	$ 99,930
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Depreciation	542	8,547	-	257
Amortization	50	117	-	376
Taxes	(11,029)	-	(20,261)	-
Interest Expense	3,228	625	-	35,133
Securities Lending Expense	133	551	7,948	5,087
Interest on Investments	(1,387)	(2,310)	(27,811)	(32,346)
Securities Lending Income	(140)	(581)	(8,291)	(5,319)
Financing Income	(3,320)	-	-	-
Federal Indirect Cost Recoveries	-	2,461	-	-
Arbitrage Rebate Tax	(299)	-	-	34
Rentals/Leases/Royalties	-	-	(21,027)	-
Extraordinary Item (Legal Settlement)	(350)	-	-	-
Change in Assets and Liabilities:				
Decr (Incr) in Accounts Receivable	(1,984)	163	-	(1,787)
Decr (Incr) in Due From Other Governments	-	(2)	-	-
Decr (Incr) in Due From Other Funds	(166)	(1,559)	(309)	1,379
Decr (Incr) in Due From Primary Government	-	-	-	(1,457)
Decr (Incr) in Due From Component Units	(36)	(1,379)	-	-
Decr (Incr) in Inventories	(1,133)	11	-	8
Decr (Incr) in Intangible Assets	7	-	-	-
Decr (Incr) in Long-term Loans/Notes Receivable	-	-	-	(29,097)
Incr (Decr) in Deferred Charges	-	-	-	288
Decr (Incr) in Other Assets	(16)	(11)	-	(582)
Incr (Decr) in Accounts Payable	568	(275)	(1)	224
Incr (Decr) in Lottery Prizes Payable	155	-	-	-
Incr (Decr) in Due to Other Funds	363	438	(15)	(1,310)
Incr (Decr) in Due to Other Governments	(2)	(3)	-	-
Incr (Decr) in Due to Primary Government	-	-	-	28
Incr (Decr) in Due to Component Units	2	41	15	-
Incr (Decr) in Non-Capital Leases Payable	-	108	-	-
Incr (Decr) in Deferred Revenue	28	839	-	4,082
Incr (Decr) in Property Held in Trust	11	(76)	-	(39)
Incr (Decr) in Compensated Absences Payable	82	339	-	140
Incr (Decr) in Estimated Insurance Claims	812	(770)	-	(71,524)
Net Cash Provided by (Used For) Operating Activities	$ 12,663	$ 5,051	$ 5,585	$ 3,505
SCHEDULE OF NONCASH TRANSACTIONS:				
Fixed Asset Acquisitions from Capital Leases	$ 3,875	$ 3,711	$ -	$ -
Asset Acquisitions from Contributed Capital Transfers from Other Funds	838	127	-	-
Asset Disposals from Contributed Capital	(845)	(10)	-	-
Total Noncash Transactions	$ 3,868	$ 3,828	$ -	$ -

RECONCILIATION FOR NONEXPENDABLE TRUST:		
Cash and Cash Equivalents, June 30	$	39,435
Cash and Cash Equivalents, Expendable Trust, Investment Trust and Agency		752,734
Cash and Cash Equivalents per Combined Balance Sheet, Trust and Agency	$	792,169

STATE OF MONTANA
Combining Balance Sheet
Component Units - Proprietary Fund Types
June 30, 1999
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
ASSETS:					
Cash/Cash Equivalents	$ 6,937	$ 724	$ 25,896	$ 8,670	$ 42,227
Receivables (Net)	4,337	61	21,184	2,812	28,394
Due from Primary Government (Note 13)	1	-	1,504	429	1,934
Due from Other Funds (Note 13)	-	-	293	1	294
Inventories	-	-	33	-	33
Long-Term Loans/Notes Receivable	466,040	93	-	-	466,133
Investments (Note 4)	149,964	930	422,933	133,241	707,068
Securities Lending Collateral (Note 4)	82	684	91,728	6,462	98,956
Equipment	74	4	2,580	-	2,658
Accumulated Depreciation	(19)	(2)	(1,522)	-	(1,543)
Intangible Assets	60	-	6,992	-	7,052
Deferred Charges	5,805	-	-	-	5,805
Other Assets	54	1	760	124	939
TOTAL ASSETS	$ 633,335	$ 2,495	$ 572,381	$ 151,739	$ 1,359,950
LIABILITIES/FUND EQUITY:					
Liabilities:					
Accounts Payable	$ 3,853	$ 5	$ 1,416	$ 50	$ 5,324
Due to Primary Government (Note 13)	35	4	10,791	7	10,837
Due to Other Funds (Note 13)	2	1	1	282	286
Deferred Revenue	70	-	19,315	434	19,819
Bonds/Notes Payable (Net) (Note 12)	529,500	-	-	-	529,500
Property Held In Trust	6	1	418	-	425
Securities Lending Liability (Note 4)	82	684	91,728	6,462	98,956
Compensated Absences Payable	40	26	844	63	973
Estimated Insurance Claims (Note 9)	-	-	303,500	130,064	433,564
Arbitrage Rebate Tax Payable	101	-	-	-	101
Total Liabilities	533,689	721	428,013	137,362	1,099,785
Fund Equity:					
Contributed Capital (Note 17)	-	-	-	154,468	154,468
Retained Earnings:					
Reserved for Debt Service	99,646	-	-	-	99,646
Unreserved	-	1,774	144,368	(140,091)	6,051
Total Fund Equity	99,646	1,774	144,368	14,377	260,165
TOTAL LIABILITIES/FUND EQUITY	$ 633,335	$ 2,495	$ 572,381	$ 151,739	$ 1,359,950

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Revenues, Expenses and Changes in Retained Earnings
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
OPERATING REVENUES:					
Charges for Services	$ 106	$ 292	$ 25	$ -	$ 423
Investment Earnings	8,524	78	17,811	5,933	32,346
Securities Lending Income	6	37	4,944	332	5,319
Financing Income	32,210	-	-	-	32,210
Contributions/Premiums	-	-	70,169	(87)	70,082
Payroll Taxes	-	-	-	28,891	28,891
Other Operating Revenues	12	-	18	-	30
Total Operating Revenues	40,858	407	92,967	35,069	169,301
OPERATING EXPENSES:					
Personal Services	505	107	9,405	26	10,043
Contractual Services	2,096	30	4,796	91	7,013
Supplies/Materials	65	9	740	-	814
Benefits/Claims (Note 3)	-	-	48,770	(51,315)	(2,545)
Depreciation	3	1	253	-	257
Amortization	31	-	345	-	376
Utilities/Rent	41	4	155	-	200
Communications	25	4	495	-	524
Travel	47	16	120	-	183
Repair/Maintenance	56	1	368	-	425
Interest Expense	35,133	-	-	-	35,133
Securities Lending Expense	6	35	4,734	312	5,087
Arbitrage Rebate Tax	34	-	-	-	34
Dividends	-	-	9,992	-	9,992
Other Operating Expenses	145	17	680	993	1,835
Total Operating Expenses	38,187	224	80,853	(49,893)	69,371
Operating Income (Loss)	2,671	183	12,114	84,962	99,930
NONOPERATING REVENUES (EXPENSES):					
Gain (Loss) Sale of Fixed Assets	(3)	-	2	-	(1)
Total Nonoperating Revenues (Expenses)	(3)	-	2	-	(1)
Income (Loss) Before Operating Transfers	2,668	183	12,116	84,962	99,929
Operating Transfers to Primary Government	-	-	(10,000)	-	(10,000)
Net Income (Loss)	2,668	183	2,116	84,962	89,929
RETAINED EARNINGS - JULY 1 - As Previously Reported	96,978	1,590	142,247	(225,053)	15,762
Prior Period Adjustments (Note 3)	-	1	5	-	6
RETAINED EARNINGS - JULY 1 - As Restated	96,978	1,591	142,252	(225,053)	15,768
RETAINED EARNINGS - JUNE 30	$ 99,646	$ 1,774	$ 144,368	$ (140,091)	$ 105,697

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Cash Flows
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Sales and Services	$ 91	$ 283	$ 69,267	$ (17)	$ 69,624
Collections of Principal and Interest on Loans	98,344	-	-	-	98,344
Cash Payments for Loans	(95,050)	-	-	-	(95,050)
Payments to Suppliers for Goods and Services	(2,460)	(80)	(6,406)	(2,439)	(11,385)
Payments to Employees	(485)	(107)	(9,017)	(190)	(9,799)
Cash Payments for Claims	-	-	(56,307)	(12,990)	(69,297)
Collection of Notes Receivable	-	-	-	2	2
Collection of Payroll Taxes	-	-	-	31,003	31,003
Other Operating Revenues	12	-	43	-	55
Other Operating Payments	-	-	(9,992)	-	(9,992)
Net Cash Provided by (Used for) Operating Activities	452	96	(12,412)	15,369	3,505
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Payment of Principal and Interest on Bonds and Notes	(95,644)	-	-	-	(95,644)
Proceeds from Issuance of Bonds and Notes	66,625	-	-	-	66,625
Payment of Bond Issuance Costs	(922)	-	-	-	(922)
Net Cash Provided by (Used for) Noncapital Financing Activities	(29,941)	-	-	-	(29,941)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of Fixed Assets	(10)	-	(776)	-	(786)
Proceeds from Sale of Fixed Assets	-	-	7	-	7
Net Cash Used for Capital and Related Financing Activities	(10)	-	(769)	-	(779)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(584,242)	(950)	(65,449)	(53,561)	(704,202)
Proceeds from Sales or Maturities of Investments	605,955	952	55,375	29,299	691,581
Proceeds from Securities Lending Transactions	6	37	5,043	301	5,387
Interest and Dividends on Investments	11,557	98	31,817	8,234	51,706
Payment of Securities Lending Costs	(6)	(35)	(4,839)	(283)	(5,163)
Collections of Principal and Interest on Loans	-	68	-	-	68
Arbitrage Rebate Tax	(185)	-	-	-	(185)
Net Cash Provided by (Used for) Investing Activities	33,085	170	21,947	(16,010)	39,192
Net Increase (Decrease) in Cash and Cash Equivalents	3,586	266	8,766	(641)	11,977
Cash and Cash Equivalents, July 1	3,351	458	17,130	9,311	30,250
Cash and Cash Equivalents, June 30	$ 6,937	$ 724	$ 25,896	$ 8,670	$ 42,227

The notes to the financial statements are an integral part of this statement.

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating Income (Loss)	$ 2,671	$ 183	$ 12,114	$ 84,962	$ 99,930
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	3	1	253	-	257
Amortization	31	-	345	-	376
Interest Expense	35,133	-	-	-	35,133
Securities Lending Expense	6	35	4,734	312	5,087
Interest on Investments	(8,524)	(78)	(17,811)	(5,933)	(32,346)
Securities Lending Income	(6)	(37)	(4,944)	(332)	(5,319)
Arbitrage Rebate Tax	34	-	-	-	34
Change in Assets and Liabilities:					
Decr (Incr) in Accounts Receivable	-	(10)	(3,646)	1,869	(1,787)
Decr (Incr) in Due From Other Funds	(1)	-	1,333	47	1,379
Decr (Incr) in Due From Primary Government	-	1	(1,499)	41	(1,457)
Decr (Incr) in Inventories	-	-	8	-	8
Decr (Incr) in Long-Term Loans/Notes Receivable	(29,097)	-	-	-	(29,097)
Incr (Decr) in Deferred Charges	288	-	-	-	288
Decr (Incr) in Other Assets	(88)	-	(370)	(124)	(582)
Incr (Decr) in Accounts Payable	2	2	205	15	224
Incr (Decr) in Due to Other Funds	(41)	-	-	(1,269)	(1,310)
Incr (Decr) in Due to Primary Government	35	(1)	78	(84)	28
Incr (Decr) in Deferred Revenue	-	-	3,906	176	4,082
Incr (Decr) in Property Held in Trust	4	1	(44)	-	(39)
Incr (Decr) in Compensated Absences Payable	2	(1)	113	26	140
Incr (Decr) in Estimated Insurance Claims	-	-	(7,187)	(64,337)	(71,524)
Net Cash Provided by (Used for) Operating Activities	$ 452	$ 96	$ (12,412)	$ 15,369	$ 3,505

STATE OF MONTANA
Combining Statement of Plan Net Assets
Component Units - Pension Trust Funds
June 30, 1999
(Expressed in Thousands)

	PUBLIC EMPLOYEES RETIREMENT DIVISION			
	TRS	PERS	MUNICIPAL POLICE	FIRE-FIGHTERS UNIFIED
ASSETS:				
Cash/Cash Equivalents (Note 4)	$ 64,866	$ 76,622	$ 2,387	$ 2,489
Receivables (Net):				
Employer Contributions	5,466	1,522	128	105
Employee Contributions	4,909	1,615	168	77
Interest	7,438	9,115	398	375
Other Receivables	168	113	1	6
Interfund Loans Receivable (Note 13)	-	70	-	-
Due from Primary Government (Note 13)	75	1,872	5,576	-
Due from Other Funds (Note 13)	1,164	586	1	5,076
Long-Term Notes/Loans Receivable	-	446	-	-
Investments, at Fair Value:				
Equity in Pooled Investments (Note 4)	1,977,631	2,431,629	111,531	106,709
Other Investments (Note 4)	168,995	200,305	2,266	1,699
Securities Lending Collateral (Note 4)	164,691	202,813	9,399	8,779
Land	35	25	-	-
Buildings/Improvements	158	277	-	-
Equipment	137	15	-	-
Accumulated Depreciation	(186)	(184)	-	-
Intangible Assets	660	-	-	-
TOTAL ASSETS	$ 2,396,207	$ 2,926,841	$ 131,855	$ 125,315
LIABILITIES:				
Accounts Payable	$ 424	$ 659	$ 34	$ -
Interfund Loans Payable (Note 13)	-	-	70	-
Due to Primary Government (Note 13)	47	134	-	-
Due to Other Governments	28	-	-	-
Due to Other Funds (Note 13)	1	205	33	26
Deferred Revenue	-	34	3	8
Lease/Installment Purchase Payable (Note 11)	227	-	-	-
Property Held in Trust	20	-	-	-
Securities Lending Liability (Note 4)	164,691	202,813	9,399	8,779
Compensated Absences Payable (Note 1)	51	121	-	-
TOTAL LIABILITIES	165,489	203,966	9,539	8,813
Fund Balances Reserved for Employees' Pension Benefits	$ 2,230,718	$ 2,722,875	$ 122,316	$ 116,502

The notes to the financial statements are an integral part of this statement.

	SHERIFFS	HIGHWAY PATROL	JUDGES	GAME WARDENS	VOLUNTEER FIRE-FIGHTERS	TOTALS
$	4,930	$ 2,135	$ 1,243	$ 1,438	$ 260	$ 156,370
	129	-	-	-	-	7,350
	135	-	-	-	-	6,904
	398	261	139	101	66	18,291
	-	-	-	5	-	293
	-	-	-	-	-	70
	-	167	-	-	944	8,634
	10	86	41	67	1	7,032
	-	-	-	-	-	446
	112,284	71,134	37,886	28,513	14,928	4,892,245
	2,266	1,699	1,133	566	566	379,495
	9,521	6,235	3,353	2,420	1,598	408,809
	-	-	-	-	-	60
	-	-	-	-	-	435
	-	-	-	-	-	152
	-	-	-	-	-	(370)
	-	-	-	-	-	660
$	129,673	$ 81,717	$ 43,795	$ 33,110	$ 18,363	$ 5,886,876
$	-	$ 6	$ -	$ 20	$ -	$ 1,143
	-	-	-	-	-	70
	-	-	-	-	-	181
	-	-	-	-	-	28
	22	13	3	14	24	341
	3	6	-	-	-	54
	-	-	-	-	-	227
	-	-	-	-	-	20
	9,521	6,235	3,353	2,420	1,598	408,809
	-	-	-	-	-	172
	9,546	6,260	3,356	2,454	1,622	411,045
$	120,127	$ 75,457	$ 40,439	$ 30,656	$ 16,741	$ 5,475,831

STATE OF MONTANA
Combining Statement of Changes in Plan Net Assets
Component Units - Pension Trust Funds
For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

		PUBLIC EMPLOYEES RETIREMENT DIVISION		
	TRS	PERS	MUNICIPAL POLICE	FIRE-FIGHTERS UNIFIED
ADDITIONS:				
Contributions/Premiums:				
Employer	$ 44,987	$ 48,050	$ 8,280	$ 2,284
Employee	42,642	49,252	2,154	1,679
Other Contributions	102	81	1	5,074
Net Investment Earnings:				
Investment Earnings	241,408	294,719	12,465	12,132
Administrative Investment Expense	(1,577)	(1,918)	(58)	(48)
Securities Lending Income	8,600	10,574	491	460
Securities Lending Expense	(8,110)	(9,972)	(464)	(436)
Other Additions	20	110	1	1
Total Additions	328,072	390,896	22,870	21,146
DEDUCTIONS:				
Benefits	100,028	91,521	8,279	6,995
Refunds	5,126	11,703	330	61
Administrative Expenses:				
Personal Services	463	700	-	-
Contractual Services	266	420	-	-
Supplies/Materials	35	35	-	-
Depreciation	19	11	-	-
Amortization	76	1	-	-
Utilities/Rent	26	63	-	-
Communications	38	58	-	-
Travel	15	30	-	-
Repair/Maintenance	22	1	-	-
Other Operating Expenses	400	35	33	26
Local Assistance	-	-	-	-
Total Deductions	106,514	104,578	8,642	7,082
Net Increase (Decrease)	221,558	286,318	14,228	14,064
Fund Balances Reserved for Employees' Pension Benefits - July 1 - As Previously Reported	2,009,159	2,436,557	108,088	102,438
Prior Period Adjustments	1	-	-	-
Fund Balances Reserved for Employees' Pension Benefits - July 1 - As Restated	2,009,160	2,436,557	108,088	102,438
Fund Balances Reserved for Employees' Pension Benefits - June 30	$ 2,230,718	$ 2,722,875	$ 122,316	116,502

The notes to the financial statements are an integral part of this statement.

	SHERIFFS	HIGHWAY PATROL	JUDGES	GAME WARDENS	VOLUNTEER FIRE-FIGHTERS	TOTALS
$	2,081 $	2,593 $	823 $	931 $	- $	110,029
	2,147	598	224	933	-	99,629
	12	-	-	7	944	6,221
	13,147	7,975	4,307	3,336	1,471	590,960
	(58)	(41)	(26)	(15)	(12)	(3,753)
	495	325	174	126	83	21,328
	(469)	(307)	(164)	(119)	(78)	(20,119)
	1	1	-	1	1	136
	17,356	11,144	5,338	5,200	2,409	804,431
	2,364	4,085	1,319	1,153	814	216,558
	327	96	-	73	-	17,716
	-	-	-	-	-	1,163
	-	-	-	-	-	686
	-	-	-	-	-	70
	-	-	-	-	-	30
	-	-	-	-	-	77
	-	-	-	-	-	89
	-	-	-	-	-	96
	-	-	-	-	-	45
	-	-	-	-	-	23
	22	13	3	14	24	570
	-	-	-	-	11	11
	2,713	4,194	1,322	1,240	849	237,134
	14,643	6,950	4,016	3,960	1,560	567,297
	105,484	68,507	36,402	26,696	15,181	4,908,512
	-	-	21	-	-	22
	105,484	68,507	36,423	26,696	15,181	4,908,534
$	120,127 $	75,457 $	40,439 $	30,656 $	16,741 $	5,475,831

STATE OF MONTANA
Combining Balance Sheet
Component Units - All Higher Education Funds
June 30, 1999
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
ASSETS:				
Cash/Cash Equivalents	$ 15,840	$ 19,915	$ 13,880	$ 5,579
Receivables (Net)	3,612	462	699	5,243
Interfund Loans Receivable (Note 13)	480	3,100	-	-
Due from Other Governments	1	-	-	11,757
Due from Primary Government (Note 13)	198	150	59	1,867
Due from Other Funds (Note 13)	5,293	9,425	604	439
Inventories	67	1,568	2,455	-
Equity in Pooled Investments (Note 4)	-	-	-	-
Long-Term Notes/Loans Receivable	-	-	-	-
Advances to Other Funds	-	9	5	-
Investments (Note 4)	-	124	-	6
Securities Lending Collateral (Note 4)	193	643	820	184
Land	-	-	-	-
Buildings/Improvements	-	-	-	-
Equipment	-	-	-	-
Other Fixed Assets	-	-	-	-
Construction in Progress	-	-	-	-
Intangible Assets	-	-	-	-
Deferred Charges	-	-	-	-
Other Assets	4,369	1,806	463	211
TOTAL ASSETS	$ 30,053	$ 37,202	$ 18,985	$ 25,286
LIABILITIES/FUND BALANCES:				
Liabilities:				
Accounts Payable	$ 14,105	$ 5,955	$ 2,315	$ 4,542
Interfund Loans Payable (Note 13)	-	-	100	3,480
Advances from Other Funds	5	4	112	5
Due to Other Governments	313	13	-	-
Due to Primary Government (Note 13)	357	154	42	27
Due to Other Funds (Note 13)	7,878	2,611	1,382	7,103
Deferred Revenue	6,070	964	790	624
Lease/Installment Purchase Payable (Note 11)	-	43	-	-
Bonds/Notes Payable (Note 12)	-	-	-	-
Property Held in Trust	59	57	422	-
Securities Lending Liability (Note 4)	193	643	820	184
Early Retirement Benefits Payable (Note 12)	55	-	3	-
Compensated Absences Payable (Note 1)	25,004	5,550	2,103	178
Total Liabilities	54,039	15,994	8,089	16,143
Fund Balances:				
Net Investment in Plant	-	-	-	-
Reserved For:				
Encumbrances	502	3	12	9
Debt Service	-	-	-	-
Student Loans/Endowments	-	-	-	-
Construction	-	-	-	-
Unreserved	(24,488)	21,205	10,884	9,134
Total Fund Balances	(23,986)	21,208	10,896	9,143
TOTAL LIABILITIES/FUND BALANCES	$ 30,053	$ 37,202	$ 18,985	$ 25,286

The notes to the financial statements are an integral part of this statement.

	FIDUCIARY FUNDS			PLANT FUNDS				
	STUDENT LOANS	ENDOWMENTS	AGENCY	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	TOTALS
$	3,396	$ 2,356	$ 3,305	$ 29,910	$ 15,386	$ 4,242	$ -	$ 113,809
	27,662	13	123	193	60	75	-	38,142
	-	-	-	-	-	-	-	3,580
	89	-	-	-	-	-	-	11,847
	2	-	23	143	1	173	-	2,616
	119	2	5,211	5,596	1,220	2,778	-	30,687
	-	-	-	-	-	-	-	4,090
	341	3,485	-	-	-	-	-	3,826
	258	-	-	-	-	-	-	258
	-	-	-	36	52	217	-	319
	-	758	-	-	2,411	-	-	3,299
	136	465	355	211	977	123	-	4,107
	-	-	-	-	-	-	13,511	13,511
	-	-	-	-	-	-	503,493	503,493
	-	-	-	-	-	-	100,797	100,797
	-	-	-	-	-	-	88,216	88,216
	-	-	-	51,245	7,480	-	9,196	67,921
	-	-	-	-	-	-	3,271	3,271
	-	-	-	-	-	2,231	-	2,231
	-	-	250	29	-	-	-	7,128
$	32,003	$ 7,079	$ 9,267	$ 87,363	$ 27,587	$ 9,839	$ 718,484	1,003,148
$	8	$ -	$ 964	$ 1,329	$ 642	$ 2,055	$ -	$ 31,915
	-	-	-	-	-	-	-	3,580
	-	-	-	-	105	-	88	319
	-	-	291	-	-	-	-	617
	-	-	1,628	190	45	-	-	2,443
	158	86	2,285	5,101	1,063	2,289	-	29,956
	-	-	-	129	125	107	-	8,809
	-	-	-	-	-	-	1,114	1,157
	-	-	-	65,424	5,133	2,267	144,960	217,784
	-	-	3,744	-	-	-	-	4,282
	136	465	355	211	977	123	-	4,107
	-	-	-	-	-	-	-	58
	-	-	-	-	9	-	-	32,844
	302	551	9,267	72,384	8,099	6,841	146,162	337,871
	-	-	-	-	-	-	572,322	572,322
	-	-	-	7	44	-	-	577
	-	-	-	-	-	2,236	-	2,236
	29,858	5,067	-	-	-	-	-	34,925
	-	-	-	4,175	1,420	-	-	5,595
	1,843	1,461	-	10,797	18,024	762	-	49,622
	31,701	6,528	-	14,979	19,488	2,998	572,322	665,277
$	32,003	$ 7,079	$ 9,267	$ 87,363	$ 27,587	$ 9,839	$ 718,484	$ 1,003,148

STATE OF MONTANA
Statement of Changes in Fund Balance
Component Units - All Higher Education Funds
For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES/OTHER ADDITIONS:				
Tuition/Fees	$ 102,723	$ 10,544	$ 9,272	$ 2
Federal Grants/Contracts	4,229	30	27	109,699
State Grants/Contracts	-	577	-	8,090
Local Grants/Contracts	-	-	4	1,185
Private Gifts/Grants/Donations	-	1,290	5	18,915
Endowment Income	-	-	-	183
Sales/Services-Educational Activities	744	2,232	52	152
Sales/Services-Designated/Auxiliary Enterprises	2	22,594	52,981	223
Indirect Costs Recovered	53	11,236	-	8
Investment Earnings	1,703	569	1,093	224
Securities Lending Income	11	10	6	2
Acquisition of Long-Lived Assets	-	-	-	-
Retirement of Indebtedness	-	-	-	-
Other Revenues/Additions	456	3,760	1,340	4,106
Total Revenues/Other Additions	109,921	52,842	64,780	142,789
Intrafund Revenues/Other Additions	-	-	-	(146)
Net Revenues/Other Additions	109,921	52,842	64,780	142,643
EXPENDITURES/OTHER DEDUCTIONS:				
Instruction	114,828	5,951	-	6,431
Research	12,977	9,917	-	46,623
Public Service	7,155	4,806	-	14,899
Academic Support	19,974	10,590	-	2,521
Student Services	17,549	13,096	-	3,738
Institutional Support	17,619	381	-	1,958
Independent Operations	1,777	186	-	-
Scholarships/Fellowships	8,754	511	-	60,417
Auxiliary Enterprises	-	8	53,359	5
Operation/Maintenance of Plant	22,669	461	-	41
Expended for Plant	-	-	-	-
Debt Services	116	287	44	17
Capital Outlay	5,592	1,807	113	3,486
Securities Lending	10	10	6	2
Disposal of Long-Lived Assets	-	-	-	-
Debt Incurred	-	-	-	-
Other Expenditures/Deductions	876	251	7	6
Total Expenditures/Other Deductions	229,896	48,262	53,529	140,144
Intrafund Expenditures/Other Deductions	-	-	-	(146)
Net Expenditures/Other Deductions	229,896	48,262	53,529	139,998
TRANSFERS IN (OUT)/OTHER ADDITIONS (DEDUCTIONS):				
Transfers from State General Fund	104,101	-	-	-
Millage Transfers	14,728	-	-	-
Mandatory Transfers	464	(728)	(9,380)	2
Nonmandatory Transfers	(1,252)	(484)	(1,994)	1,903
Transfers from Primary Government	-	-	262	45
Total Transfers In (Out) (Note 13)	118,041	(1,212)	(11,112)	1,950
Move Equity to Investment in Plant	-	-	-	-
Loan Proceeds	-	20	-	-
Bond Proceeds	-	-	-	-
Total Transfers In (Out)/Other Additions (Deductions)	118,041	(1,192)	(11,112)	1,950
Net Increase (Decrease) in Fund Balances	(1,934)	3,388	139	4,595
FUND BALANCES - July 1 - As Previously Reported	(22,169)	17,796	10,767	4,557
Prior Period Adjustments (Note 3)	62	1	(1)	-
FUND BALANCES - July 1 - As Restated	(22,107)	17,797	10,766	4,557
Residual Equity Transfers (Note 13)	55	23	(9)	(9)
FUND BALANCES - June 30	$ (23,986)	$ 21,208	$ 10,896	$ 9,143

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS			PLANT FUNDS		
STUDENT LOANS	ENDOWMENTS	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
$ -	$ -	$ 3,283	$ 1,327	$ 4,747	$ -
758	-	-	-	23	-
133	-	-	-	-	-
-	-	-	-	-	-
1	12	5,858	91	-	-
-	-	-	-	-	-
-	-	-	21	-	-
2	-	300	60	1,150	-
-	-	-	-	-	-
477	204	2,467	714	689	-
3	-	5	13	-	-
-	-	-	-	-	60,364
-	-	-	-	-	16,909
494	-	2,681	810	257	-
1,868	216	14,594	3,036	6,866	77,273
-	-	(38)	-	-	-
1,868	216	14,556	3,036	6,866	77,273
-	-	468	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
173	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	6,634	11,159	31	-
-	-	522	107	18,531	-
-	-	3,935	263	-	-
2	-	5	12	-	-
-	-	-	-	-	4,550
-	-	-	-	-	9,717
368	-	155	1,390	207	-
543	-	11,719	12,931	18,769	14,267
-	-	(38)	-	-	-
543	-	11,681	12,931	18,769	14,267
-	-	-	34	-	-
-	-	-	-	-	-
-	-	(7,486)	3,106	14,398	-
(4)	(53)	494	6,314	(2,478)	-
-	-	807	39	985	-
(4)	(53)	(6,185)	9,493	12,905	-
-	-	4,145	(607)	343	(26,903)
-	-	357	-	-	964
-	-	1,600	-	(1)	-
(4)	(53)	(83)	8,886	13,247	(25,939)
1,321	163	2,792	(1,009)	1,344	37,067
29,915	6,365	12,181	20,131	1,655	535,255
465	-	-	429	-	-
30,380	6,365	12,181	20,560	1,655	535,255
-	-	6	(63)	(1)	-
$ 31,701	$ 6,528	$ 14,979	$ 19,488	$ 2,998	$ 572,322

STATE OF MONTANA
Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes
Component Units - Higher Education Fund Type
For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES:				
Tuition/Fees	$ 102,723	$ 10,544	$ 9,272	$ 2
Federal Grants/Contracts	4,229	30	27	107,556
State Grants/Contracts	-	577	-	7,958
Local Grants/Contracts	-	-	4	1,159
Private Gifts/Grants/Donations	-	1,290	5	18,571
Endowment Income	-	-	-	183
Sales/Services-Educational Activities	744	2,232	52	152
Sales/Services-Designated/Auxiliary Enterprises	2	22,594	52,981	223
Indirect Costs Recovered	53	11,236	-	8
Investment Earnings	1,703	569	1,093	224
Securities Lending Income	11	10	6	2
Other Revenues	456	3,760	1,340	4,106
Total Revenues	109,921	52,842	64,780	140,144
Intrafund Revenues	-	-	-	(146)
Net Revenues	109,921	52,842	64,780	139,998
EXPENDITURES:				
Educational and General:				
Instruction	114,828	5,951	-	6,431
Research	12,977	9,917	-	46,623
Public Service	7,155	4,806	-	14,899
Academic Support	19,974	10,590	-	2,521
Student Services	17,549	13,096	-	3,738
Institutional Support	17,619	381	-	1,958
Scholarships/Fellowships	8,754	511	-	60,417
Operation/Maintenance of Plant	22,669	461	-	41
Other Expenditures	876	251	7	6
Total Educational and General Expenditures	222,401	45,964	7	136,634
Intrafund Expenditures	-	-	-	(146)
Net Educational and General Expenditures	222,401	45,964	7	136,488
Auxiliary Enterprises	-	8	53,359	5
Independent Operations	1,777	186	-	-
Debt Services	116	287	44	17
Capital Outlay	5,592	1,807	113	3,486
Securities Lending	10	10	6	2
Total Expenditures	229,896	48,262	53,529	139,998
TRANSFERS IN (OUT):				
Transfers from State General Fund	104,101	-	-	-
Millage Transfers	14,728	-	-	-
Mandatory Transfers	464	(728)	(9,380)	2
Nonmandatory Transfers	(1,252)	(484)	(1,993)	1,902
Transfers from Primary Government	-	-	262	45
Total Transfers In (Out) (Note 13)	118,041	(1,212)	(11,111)	1,949
OTHER ADDITIONS(DEDUCTIONS):				
Loan Proceeds	-	20	-	-
Excess of Restricted Receipts Over Transfers to Revenue	-	-	-	2,645
Total Other Additons (Deductions)	-	20	-	2,645
Net Increase (Decrease) in Fund Balances	$ (1,934)	$ 3,388	$ 140	$ 4,594

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of the Higher Education Funds have been prepared in conformity with GAAP for colleges and universities as prescribed by the American Institute of Certified Public Accountants.

A. Reporting Entity - For financial reporting purposes, the State of Montana has included all funds and account groups which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discrete Component Units
These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component units columns of the combined financial statements include the financial data of these entities:

Housing Authority (Proprietary Fund Type) - This Authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe and sanitary housing to persons and families of lower income. The Board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $975 million. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited annually by the Legislative Auditor. Its report is issued under separate cover and available at 836 Front Street, Helena, MT 59620.

Health Facilities Authority (Proprietary Fund Type) - This Authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. Its purpose is to contain future health care costs by offering debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions for purchases of capital equipment and buildings. The Board issues revenue bonds to fulfill its purpose. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued by the Legislative Auditor every two years. Its report is issued under separate cover and available at 555 Fuller Avenue, Helena, MT 59620.

State Compensation Insurance Fund (New and Old) (Proprietary Fund Type) - The Fund is a quasi-governmental corporation governed by a board appointed by the Governor. The Fund provides workers' compensation insurance. The Fund consists of two separate entities, the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. In 1999, the 56th Legislature determined that the Old Fund was adequately funded and discontinued the Old Fund Liability Tax. Administrative operations and budgets are reviewed by the Governor and the legislature. The Fund is audited annually by the Legislative Auditor. Its report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Teachers' Retirement System (Pension Trust Fund) - This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers' Retirement System are paid from investment earnings of the Fund. The System is funded from employer and employee contributions and investment earnings. The system is audited annually by the Legislative Auditor. Its report is issued under separate cover and is available at 1500 East 6th Avenue, Helena, MT 59620.

Public Employees' Retirement Board (Pension Trust Funds) - The Board, appointed by the Governor, administers eight separate retirement systems for the purpose of providing retirement, disability, death and lump sum payments to each system's members. These legally separate entities include the Public Employees', the Municipal Police Officers', the Game Wardens' and Peace Officers', the Sheriffs', the Judges', the Highway Patrol Officers' and the Firefighters' Unified Retirement Systems, as well as the Volunteer Firefighters' Compensation Act.

The Public Employees' Retirement System (PERS) is funded from employer and employee contributions and investment earnings. The PERS also accounts for the administrative costs, paid from investment earnings, of the system. The Municipal Police Officers' Retirement System is funded from member, state and city contributions. The Game Wardens' and Peace Officers' Retirement System is funded by employer and employee contributions as well as fines and forfeitures collected from fish and wildlife violations. The Sheriffs' Retirement System is funded by member and county contributions. The Judges' Retirement System is funded by member and state contributions as well as a percentage of court fees collected. The Highway Patrol Officers' Retirement System is funded by member and state contributions. The

Firefighters' Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters' Compensation Act is funded by contributions by the State of a percentage of fire insurance premium taxes collected.

The Board is a discretely presented component unit Pension Trust Fund which is audited annually by the Legislative Audit Division. Its report is issued under separate cover and is available at 1712 Ninth Avenue, Helena, MT 59620.

Universities and Colleges (Higher Education Funds) - The State Board of Regents has responsibility for the following institutions: University of Montana-Missoula and the units under it including Montana Tech of the University of Montana, Western Montana College of the University of Montana and the Helena College of Technology; and Montana State University-Bozeman and the units under it including Montana State University-Billings, Montana State University-Northern, and the Great Falls College of Technology. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. individual audit reports are issued by the Legislative Auditor every two years. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 2500 Broadway, Helena, MT 59620.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation, and (3) private foundations supporting public education, over which the State exercises neither financial nor administrative control (see Note 18). Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund.

B. Fund Structure - The State uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The financial activities of the State of Montana are classified into fund categories and account groups as described below:

GOVERNMENTAL FUNDS
General Fund - To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes (other than expendable trusts or major capital projects).

Debt Service Funds - To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds - To account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

PROPRIETARY FUNDS
Enterprise Funds - To account for operations (1) financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs primarily through user charges; or (2) where the legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Internal Service Funds - To account for the financing of goods and services provided by one department or agency to other departments, agencies or other governmental entities on a cost-reimbursement basis.

FIDUCIARY FUNDS
Trust and Agency Funds - To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. These include: (1) Expendable Trust Funds; (2) Nonexpendable Trust Funds; (3) Pension Trust Funds; (4) Agency Funds, and (5) Investment Trust Funds.

ACCOUNT GROUPS
General Fixed Assets Account Group - To account for all fixed assets of the State, except those accounted for in the Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

General Long-Term Obligations Account Group - To account for all long-term obligations of the State, except those accounted for in Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

HIGHER EDUCATION (UNIVERSITY AND COLLEGE) FUNDS
Current Funds
Unrestricted
General Operating - To account for the portion of financial resources that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the legislature.

Designated - To account for those resources associated with general operations which are separately classified in order to accumulate costs recharged to other funds and to identify special activities of educational departments which are supported by supplemental assessments and the receipt and disposition of special supply and facility fees which are approved for collection beyond normal course fees.

Auxiliary - To account for those financial resources devoted to providing essential on-campus services primarily to students, faculty or staff where a fee relating to the service is charged.

Restricted - To account for the portion of financial resources that can be expended only for purposes imposed by sources external to the Board of Regents and the legislature.

Fiduciary Funds

Student Loans - To account for monies which may be loaned to students, faculty or staff for purposes related to education, organized research or public services by the higher education units.

Endowments - To account for monies where the principal is available for investment. Investment earnings are to be transferred to (or recorded directly in) appropriate operating funds pursuant to prevailing administrative requirements.

Agency - To account for monies where the State acts in the capacity of a custodian or fiscal agent for individual students, faculty, staff or qualified organizations.

Plant Funds

Unexpended - To account for unexpended resources derived from various sources which are used to finance the acquisition/construction of plant assets and the associated liabilities.

Renewal and Replacement - To account for resources used to provide for the renewal and replacement of plant fund assets as distinguished from additions and improvements.

Retirement of Indebtedness - To account for resources accumulated for interest and principal payments and other debt service charges, including contributions to reserves, relating to plant fund indebtedness.

Investment in Plant - To account for all long-lived assets in the service of the higher education unit as well as all associated liabilities.

C. **Basis of Accounting** - The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed in the Governmental Funds, Expendable Trust Funds and in the Agency Funds for the purpose of asset and liability recognition. Under the modified accrual basis, revenues are susceptible to accrual and recognized when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures incurred. Intergovernmental revenues received but not earned are recorded as deferred revenues. All other revenue including taxes on coal sales, gas and oil production, individual income and other self-assessed taxes is considered available if due within 60 days of fiscal year-end. Based on historical analysis, a liability has been recognized for collected withholding taxes to be refunded in fiscal year 2000. Expenditures are recognized when the related fund liability is incurred, with the following exceptions:

(1) principal and interest on long-term debt is recognized when due;
(2) prepayments are accounted for as expenditures in the period of acquisition; and
(3) inventory items are considered expenditures when purchased.

All Proprietary, Pension Trust, Investment Trust and Nonexpendable Trust Funds are accounted for on an economic resources measurement focus. This means all assets and liabilities associated with these activities are included on their balance sheets. Operating statements for these funds present increases (revenues) and decreases (expenses) in net total assets.

Proprietary, Pension Trust, Investment Trust, Nonexpendable Trust and Higher Education Funds are maintained and reported on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. In Higher Education Funds, depreciation expense related to plant fund assets is not recorded; summer session student tuition and fee revenues and expenditures are deferred at June 30 and recorded as revenue and expenditures in the succeeding fiscal year. Unbilled receivables of Proprietary and Higher Education Funds are recognized as revenue.

Significant intrafund transactions and balances have been eliminated.

D. **Proprietary Activity Accounting and Financial Reporting** - Activities accounted for in the State's proprietary, nonexpendable trust and pension trust funds and proprietary type component units follow GAAP prescribed by the GASB and all Financial Accounting Standards Board's standards issued on or before November 30, 1989. Subsequent to this date, the State accounts for these activities as prescribed by the GASB.

E. Cash/Cash Equivalents - For all funds, except the Housing Authority in the Component Unit Proprietary Funds, cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the State Treasurer, other cash deposits, and mortgage payments in transit (See Note 4).

F. Receivables - This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. The allowance for uncollectible taxes at June 30, 1999, is $10.9 million.

G. Inventories - Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental and Expendable Trust Funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year end, significant amounts of inventory are shown as a reserve of fund balance, indicating they do not constitute "available expendable resources." An exception is the Special Revenue Fund food stamp inventory balance, which is offset by deferred revenue.

Proprietary, Pension Trust, Nonexpendable Trust, Investment Trust and Higher Education Funds report using the "consumption method," meaning inventories are expensed as used.

H. Investments - In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the balance sheet. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 4 on Cash/Cash Equivalents and Investments).

I. Equity in Pooled Investments - The Montana Board of Investments manages the State's Unified Investment Program which includes four internal investment pools. Participation in the pools is limited to Expendable Trust Funds, Nonexpendable Trust Funds, Pension Trust Funds, Higher Education Endowment and Trust Funds, the Deferred Compensation Plan and specific trusts established within the State Special Revenue Fund. The participants' investments in the pools are reported at fair value in the balance sheet within the individual funds (See Note 4 on Cash/Cash Equivalents and Investments).

J. Fixed Assets - Fixed asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure fixed assets and interest expenditures for general fixed assets are not capitalized. Infrastructure assets of primary government and component unit proprietary activities are capitalized. Interest incurred during the construction of fixed assets for proprietary funds and higher education units is capitalized.

Fixed assets are not depreciated in the General Fixed Assets Account Group. Purchases of such assets are recorded as expenditures in the appropriate governmental fund. Fixed assets in Proprietary, Nonexpendable Trust and Pension Trust Funds are accounted for within their respective funds and are depreciated. Expendable Trust Funds do not report fixed assets within their funds because the assets are purchased by other funds. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 20 years for improvements and 3 to 10 years for equipment. Fixed assets and intangible assets for Higher Education units are accounted for in the Investment in Plant Fund and are not depreciated.

The capitalization threshold for recording fixed assets is $5,000. Purchases under this threshold are recorded as expenditures/expenses in the current period.

K. Deferred Revenue - Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the State has a legal claim to the resources, the liability for deferred revenue is removed from the Combined Balance Sheet and revenue is recognized.

L. Long-Term Obligations - Long-term obligations expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Debt Account Group.

Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

M. Capital Leases - A capital lease is generally defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases" as one which transfers benefits and risks of ownership to the lessee. Leases meeting the criteria of a capital lease as defined are recorded at inception as expenditures and other financing sources in governmental fund types and as assets and liabilities in the General Fixed Assets and General Long-Term Debt Account Groups, respectively, at the present value of the future minimum lease payments, using the interest rates stated in the leases.

N. Bond Discounts/Premiums/Issuance Costs - In governmental funds, bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond proceeds are reported as an other financing source net of any premium or discount. Issuance costs are reported as debt service expenditures whether or not they are withheld from the net bond proceeds. In proprietary fund types, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount while issuance costs are reported as deferred charges.

O. Compensated Absences - Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the state do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. For fiscal year 1999,1,014 hours were contributed to the sick leave pool and 1,641 hours were withdrawn leaving a balance of 3,928 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave of Proprietary and Pension Trust Funds is recorded as an expense and liability of those funds; for higher education the expense and liability is recorded in the current unrestricted funds as the benefits accrue to employees. The liability amount recorded in the General Long-Term Obligations Account Group is not expected to be liquidated with expendable financial resources, thus no expenditure or liability is reported in the governmental funds. Upon retirement or termination, an employee is paid for 100 percent of unused vacation leave and 25 percent of unused sick leave.

As of June 30, 1999, the State's liability for unused vacation and sick leave for Higher Education Funds was $32,844,000. The leave liabilities for the remaining agencies at June 30, 1999, were $56,223,000, an increase of $2,728,000 over the June 30, 1998, leave liability of $53,495,000. The following table reflects the change (in thousands):

	Balance July 1, 1998	Leave Earned	Leave Used	Balance June 30, 1999
PRIMARY GOVERNMENT				
Governmental Fund Types and Similar Trust Funds	$ 48,776	$ 24,333	$ 22,168	$ 50,941
Proprietary Fund Types and Similar Trust Funds	3,723	2,092	1,678	4,137
Total	$ 52,499	$ 26,425	$ 23,846	$ 55,078
COMPONENT UNITS				
Proprietary Fund Types and Similar Trust Funds	996	674	525	1,145
Total Non-Higher Education Funds	$ 53,495	$ 27,099	$ 24,371	$ 56,223

P. Encumbrances - The State utilizes encumbrance accounting to record purchase orders, contracts and other commitments for the expenditure of monies to assure effective budgetary control and accountability. Encumbrances outstanding at year end represent the estimated amount of expenditures likely to result if orders for goods and services are completed. In governmental funds, encumbrances outstanding at year end are reported as reservations of fund balances since they do not represent expenditures or liabilities.

Q. Advances to Other Funds - Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund in the balance sheet account "Advance From Other Funds."

R. Fund Equity - Contributed capital is recorded in proprietary funds that have received capital from other funds. Reservations represent those portions of fund equity or retained earnings not appropriated for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. Undesignated fund balances indicate that portion of fund equity that is available for budgeting in future years subject to working capital requirements.

S. Property Taxes - Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due. The State recognizes property tax revenues as available if they are collectible within 60 days after fiscal year-end. Material delinquent and total uncollected current year property taxes receivable are recorded in receivables (net of uncollectibles).

Personal property tax levies are set each August and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due.

Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

T. Other Taxes - On the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for All Governmental Fund Types and Expendable Trust Funds, the revenue category "Other Taxes" consists of the following taxes (in thousands):

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Video Gaming	$ 12,481	$25,112	$ -	$ 37,593
Insurance Premium	36,553	-	-	36,553
Inheritance	22,155	-	-	22,155
University System Millage	1,025	14,886	-	15,911
Cigarette/Tobacco	10,629	1,552	1,915	14,096
Accommodations	118	10,781	-	10,899
Telephone License	6,052	-	-	6,052
Alcoholic Beverage	1,362	3,794	-	5,156
Electrical Energy	4,686	-	-	4,686
Public Contractor	3,320	-	-	3,320
Livestock	-	2,517	-	2,517
Public Service Commission	-	2,396	-	2,396
Freight Line	2,074	-	-	2,074
Fire Protection	-	1,896	-	1,896
Wheat Sales	-	1,476	-	1,476
Vehicle	-	1,393	-	1,393
Consumer Counsel	-	902	-	902
Miscellaneous	153	1,038	-	1,191
TOTAL OTHER TAXES	$100,608	$67,743	$1,915	$170,266

2. BUDGETARY REPORTING

A. State Budget Process - The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The legislature utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the General, Special Revenue and Capital Projects Funds, except for those Special Revenue Funds from nonstate and nonfederal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except Capital Project Funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the Legislative Fiscal Division. The Governor and budget director establish priorities and balance the budget. The Governor's budget is submitted to the Legislative Fiscal Division which prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. The Office of Budget and Program Planning establishes appropriations for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the legislature may authorize supplemental appropriations. The Governor, or his designee, may approve budget amendments for non-general fund monies not available for consideration by the legislature and for emergencies. In the accompanying financial statements, reported budget amounts are as amended. There have been budget amendments authorized for fiscal year 1999 that were material to specific budgets, however, they did not materially affect the State's budget as a whole. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued/encumbered. Fund balances/retained earnings are not reserved for reverted appropriations. For fiscal year 1999, reverted appropriations for all funds were $382.1 million of which $22.5 million were for the General Fund and $190.2 million were for the Special Revenue Fund. Agencies are able to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Appropriations for Capital Projects Funds are not made on an annual basis, but are adopted on a "project-length" basis. Because these non-operating budgets primarily serve a management control purpose and related appropriations are

continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

B. Budget Basis - The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in Proprietary Funds; compensated absences and inventories purchased in Higher Education Funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.). The General and Special Revenue Fund Type budgetary statement includes a reconciliation of unreserved fund balance between "Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses" on the budgetary basis and the GAAP basis.

3. OTHER ACCOUNTING ISSUES

A. Accounting and Reporting Changes - The State made changes in its accounting and reporting practices to enhance conformance with GAAP. All changes reported in the accompanying financial statements that resulted in the restatement of beginning fund equity were made to correct errors of prior periods.

B. State Compensation Insurance Fund - The workers' compensation benefit/claims expenditure amount (in thousands) of $(2,545) reported in the component units column in the combined proprietary fund operating statement consists of the amount of benefits paid and the actuarially determined change in estimated claims liability for the State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). The amounts for each fund are broken down as follows:

	STATE COMPENSATION INSURANCE NEW FUND	OLD FUND
Benefit and Loss Adjustment Expense	$ 55,957	$ 13,023
Incr (Decr) in Actuarially Estimated Claims	(7,187)	(64,338)
Total Benefits/Claims	$ 48,770	$ (51,315)

C. Year 2000 Issue - The Required Supplementary Information accompanying the financial statements details the significant amounts of resources committed and stages of work in process or completed to make computer systems and other electronic equipment year 2000 compliant.

4. CASH/CASH EQUIVALENTS AND INVESTMENTS

This footnote details the following balance sheet classifications (in thousands):

Cash/Cash Equivalents	$ 1,603,499
Equity in Pooled Investments	$ 5,904,368
Investments	$ 1,436,667

Carrying amounts and fair values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 4.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by the Montana Board of Investments (BOI) in short term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account there is a short term investment pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short term, highly liquid investments, the individual funds' investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Investments held are reported at fair value, annually, and the difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their investment earnings within their funds are only allowed to invest in STIP. Local government participation in STIP is also voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 555 Fuller Avenue, Helena, MT 59620.

Deposits with financial institutions are categorized to indicate the level of risk assumed by the State. Category 1 consists of deposits that are insured or collateralized with securities held by the State or by its agent in the State's name.

Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. **Category 3** deposits are uncollateralized. The State's Cash Deposits are categorized in Table 1.

The State's cash equivalents and investments are categorized to indicate the risk level assumed by the State in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments and Table 4 - Investments to disclose the level of risk assumed by the State at fiscal year-end.

Category 1 includes investments that are insured or registered securities held by the State or its agent in the State's name. **Category 2** includes uninsured and unregistered investments in which the securities are held by the counter party's trust department or agent in the State's name. **Category 3** includes uninsured and unregistered investments in which the securities are held by the counter party, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments are classified in Category 3 at fiscal year-end. **Not Categorized** includes investments held by broker-dealers under securities loans with cash collateral.

(2) The State invests in certain types of securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks (convertible equity securities), and mortgage-backed securities in addition to other long term investment securities to provide a diversified investment portfolio and an overall competitive rate of return. All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments.

Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc.. These securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

Variable-rate instruments pay a variable rate of interest until maturity. The variable rate floats with the 91 day treasury bill or the London Interbank Offered Rate (LIBOR). Variable-rate instruments have credit risk identical to similar fixed-rate securities; however, their market risk (income) is more sensitive to interest rate changes. Their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain near par as a result of interest rates being periodically reset to maintain a current market yield.

Zero Coupon Bonds and Preferred Stocks include securities whose structure differs from the basic convertible security structure. These include PENs (Participating Equity Notes), PERCs (Preferred Equity Redemption Coupons), DECS (Dividend Enhanced Common Stock) and ACES (Automatically Convertible Equity Securities). PENs are corporate bonds offering the investor a choice at maturity of receiving the greater of the bond's par value or the value of a preset ratio of an established index. PERCs reflect an investor's acceptance of a cap in a security's price appreciation in exchange for a higher income yield. DECS and ACES are issued, and traded, at a premium to the underlying common stock in exchange for a higher dividend yield. The State's investment policy requires convertible debt and zero coupon bonds to be rated at a specific level at time of purchase as a credit risk control measure. These securities carry market risk and the potential for change in market value. Market value changes may occur due to interest rate changes, declines in the value of underlying common stock, or the triggering of a call feature and other factors.

Mortgage-backed securities reflect participation in a pool of residential mortgages. These securities include structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). Some REMICs are principal-only strips (POS) and interest-only strips (IOS). These securities are based on the cash flows from the principal and interest payments on underlying mortgages, respectively. These securities have credit risk as measured by major credit rating services. The State's investment policy requires these investments to be rated "investment grade" at the time of purchase. Market risk for these securities is caused by changes in the price or principal value of the securities due to changes in interest rates.

There are no legal risks, as of June 30, 1999, that the State is aware of regarding any investments.

(3) Under the provisions of State statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% - 105% of the fair value of the securities on loan and maintain collateral equal to not less than 100% of the fair value of the loaned security. During fiscal year 1999, the State's agent loaned, on behalf of the State, certain securities held by the agent, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership for the loaned securities. On June 30, 1999, the State had no credit risk exposure to borrowers.

B. Cash/Cash Equivalents

(1) Cash Deposits - The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, State statutes require collateralization at 50% of the bank balance. The Cash Deposit amounts include both Primary Government and Component Unit deposits.

TABLE 1 - CASH DEPOSITS (In Thousands)

Risk Category		Carrying Amount	Bank Balance	Fund
1	Insured (FDIC)	$ 1,449	$ 1,449	Various
	Collateral held by State/State's agent	21,055	21,055	Various
2		3,357	3,357	Various
3		388	388	Various
Uncategorized:				
	Undeposited Cash	563		
	Cash in U.S. Treasury	142,101		
	Less: Outstanding Warrants	(58,972)		
TOTAL CASH DEPOSITS		$109,941		

As of June 30, 1999, the carrying amount of deposits for component units was $39,051,834 and the bank balance was $38,758,580. Of the bank balance, $38,692,032 was fully insured or collateralized with securities held by the component units or their agent's in the unit's name and $66,548 was collateralized with securities held by the pledging institution's trust department or its agent in the respective component unit's name.

(2) Cash Equivalents - consists of cash in the State Treasury invested by individual funds in the Short Term Investment Pool (STIP) and the Treasurer's Cash Pool in identifiable securities and investments considered to be cash equivalents. Cash equivalents, except for the Housing Authority in the Component Unit Proprietary Fund, generally are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the State Treasurer, other cash deposits, and mortgage payments in transit. Cash equivalents may be under the control of the Board of Investments (the Board) or other agencies, as allowed by law.

TABLE 2 - CASH EQUIVALENTS (In Thousands)

	Risk Category 1					
	Securities Not on Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value	Fund
Asset-Backed Securities	$ 269,844	$ -	$ -	$ 269,844	$ 270,694	Various
Corporate Obligations	502,223	-	504	502,727	501,387	Various
Government Securities	55,741	10,011	195,177	260,929	259,970	Various
Repurchase Agreements	76,000	-	-	76,000	76,000	Various
Variable-Rate	333,232	-	-	333,232	333,174	Various
Direct Investments:						
Money Markets				18,655	18,655	Various
Guaranteed Investment Contracts				32,171	32,171	Various
TOTAL CASH EQUIVALENTS				$1,493,558	$1,492,051	
Securities Lending Collateral Investment Pool			$ 67,477	$ 67,477	$ 67,477	

* At June 30, 1999, the underlying securities, with fair values of $9,857,800 and $195,143,373, respectively, were loaned for securities and cash collateral under a security lending agreement with the State's agent.

As of June 30, 1999, local governments invested $468,786,467 in the STIP.

As of June 30, 1999, component units of the State of Montana had investments in cash equivalents with a book value and fair value of $274,694,651.

C. Equity in Pooled Investments - Consists of investments held by pooled investment funds. The Montana Stock Pool (MTCP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), Montana International Pool (MTIP), and Montana Real Estate Pool (MTRP) were created to allow qualifying funds to participate in diversified investment pools. Participation is restricted to expendable trust, nonexpendable trust, pension trust, higher education endowment and trust funds, the Deferred Compensation Plan and specific trusts established within the state special revenue fund. Purchases are subject to statutory restrictions for quality and size of holdings.

TABLE 3 - EQUITY IN POOLED INVESTMENTS (In Thousands)

	Risk Category 1				
	Securities Not on Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
MTCP:					
Corporate Stocks	$1,350,854	$ -	$ 25,695	$ 1,376,549	$ 2,579,172
TFBP:					
Corporate Asset Backed	16,936	-	-	16,936	17,191
Corporate Stocks	603,228	-	1,064	604,292	604,803
US Govt. Mortgage Backed	34,050	-	-	34,050	33,783
US Govt. Direct	61,586	-	143,542	205,128	214,919
Yankee Bonds	82,579	-	-	82,579	80,684
State and Local Government	28,147	-	-	28,147	28,150
RFBP:					
Corporate Asset Backed	21,029	-	-	21,029	21,265
Corporate Stocks	1,105,580	-	10,496	1,116,076	1,114,960
US Govt. Mortgage Backed	75,806	-	-	75,806	76,648
US Govt. Direct	183,362	-	249,616	432,978	456,445
Yankee Bonds	131,828	-	524	132,352	129,105
State and Local Government	3,650	-	-	3,650	3,650
MTIP:					
BOI Internal International	51,667	279	18,028	69,974	89,941
Pyford International	41,909	-	4,065	45,974	45,861
Schroder Capital Management	50,630	-	8,182	58,812	70,404
SG Pacific Asset Management	47,655	231	7,865	55,751	66,527
MTRP:					
Corporate Stocks	124,016	-	5,408	129,424	133,359
Total Pooled Investments	4,014,512	510	474,485	4,489,507	5,766,867
Other Pool Assets (Net)	-	-	-	137,501	137,501
TOTAL EQUITY IN POOLED INVESTMENTS	$4,014,512	$ 510	$ 474,485	$4,627,008	$5,904,368
Securities Lending Collateral Investment Pool			$ 553,514	$ 553,514	$ 553,514

* At June 30, 1999, these underlying securities, with fair values of $707,179 and $539,195,572, respectively, were loaned for securities and cash under a security lending agreement with the State's agent.

As of June 30, 1999, component units of the State of Montana had equity in pooled investments with a book value of $2,872,044,735 and a fair value of $4,896,070,352.

D. Investments - Long-term investments are primarily administered by three state agencies. Article 8 of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. State law specifies which agencies may hold investments outside the administration of the BOI. The BOI, as the State's primary administrator of long-term investments, actively manages 80% of those investments; the Board of Housing, 11%; and the Department of Administration's Personnel Division, 8% for the State's Deferred Compensation Plan. Additionally, the Department of Natural Resources and Conservation manages 1% of total investments for bond related activities.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented in the Balance Sheet at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost adjusted for premium and discount amortization where applicable.

The BOI continued to invest in leveraged buyouts and venture capital in fiscal year 1999. The BOI's total leveraged buyout commitment, administered by Kohlberg, Kravis, Roberts and Companies, amounts to $150,000,000. The leveraged buyout invested balance for the pension funds amounted to $74,365,705 on June 30, 1999.

For the purpose of portfolio diversification, the BOI has committed $93,000,000 for venture capital investments administered by Brinson Partners. The June 30, 1999, venture capital invested balance totaled $11,539,281 for the Teachers' Retirement and $14,103,538 for the Public Employees' Retirement systems.

TABLE 4 - INVESTMENTS (RISK CATEGORIES) (In Thousands)

	Risk Category 1 Securities Not on Loan	Risk Category 2	Not Categorized*	Carrying Amount	Fair Value
PRIMARY GOVERNMENT					
Corporate Bonds	$ 26,508	$ -	$ 1,472	$ 27,980	$ 27,996
Corporate Asset-Backed	27,624	-	-	27,624	27,599
Government Securities	31,608	-	25,428	57,036	56,978
Government Mortgage-Backed	2,560	-	-	2,560	2,495
Other	461	-	537	998	993
Total	$ 88,761	$ -	$ 27,437	$ 116,198	$ 116,061
COMPONENT UNITS					
Corporate Bonds	$ 234,287	$ -	$ 813	$ 235,100	$ 234,705
Corporate Asset-Backed	87,539	-	-	87,539	87,519
Government Securities	65,102	85,675	89,522	240,299	242,684
Government Mortgage-Backed	61,856	-	-	61,856	60,547
Other	20,015	64,289	-	84,304	84,016
Total	468,799	149,964	90,335	709,098	709,471
TOTAL	$ 557,560	$ 149,964	$117,772	$825,296	$ 825,532
Direct Investments:					
PRIMARY GOVERNMENT					
Commercial Loans				118,780	118,780
Deferred Compensation				105,493	111,963
Total				$ 224,273	$ 230,743
COMPONENT UNITS					
Real Estate				$ 9,257	$ 9,228
Commercial Loans				7,872	7,813
Mortgages				229,426	222,725
Other				100,734	140,618
Total				347,289	380,384
TOTAL INVESTMENTS				$1,396,858	$1,436,659
Securities Lending Collateral Investment Pool			$259,130	$ 259,130	$ 259,130

* At June 30, 1999, the underlying securities, with fair values of $121,471,994 were loaned for cash collateral under a security lending agreement with the State's agent.

5. FIXED ASSETS

Changes in fixed asset balances for the fiscal year ended June 30, 1999, are reflected in the following table (Intrafund transfers of fixed assets have not been eliminated) (in thousands):

PRIMARY GOVERNMENT

	Balance July 1, 1998	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1999
PROPRIETARY FUNDS				
Land	$ 1,036	$ -	$ -	$ 1,036
Buildings/Improvements	5,390	655	-	6,045
Equipment	126,317	15,177	7,569	133,925
Other Fixed Assets	1,385	-	238	1,147
Construction in Progress	2,691	2,487	3,651	1,527
Subtotal/Total	136,819	$ 18,319	$ 11,458	143,680
Accumulated Depreciation	(75,680)			(75,962)
Total	$ 61,139			$ 67,718

	Balance July 1, 1998	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1999
NONEXPENDABLE TRUST FUNDS				
Land	$ 49,398	$ 1,862	$ -	$ 51,260
Other Fixed Assets	-	1	1	-
Total	$ 49,398	$ 1,863	$ 1	$ 51,260
GENERAL FIXED ASSETS ACCOUNT GROUP				
Land	$ 63,012	$ 3,096	$ 3,922	$ 62,186
Buildings/Improvements	316,328	15,266	2,788	328,806
Equipment	62,307	5,454	4,283	63,478
Other Fixed Assets	49,680	231	261	49,650
Construction in Progress	23,362	16,987	2,215	38,134
Total	$ 514,689	$ 41,034	$ 13,469	$ 542,254
COMPONENT UNITS				
PROPRIETARY FUNDS				
Equipment	$ 2,317	$ 512	$ 171	$ 2,658
Accumulated Depreciation	(1,329)			(1,543)
Total	$ 988			$ 1,115
PENSION TRUST FUND				
Land	$ 60	$ -	$ -	$ 60
Buildings/Improvements	435	-	-	435
Equipment	152	-	-	152
Subtotal/Total	647	$ -	$ -	647
Accumulated Depreciation	(338)			(370)
Total	$ 309			$ 277
HIGHER EDUCATION FUNDS				
Land	$ 13,541	$ 27	$ 57	$ 13,511
Buildings/Improvements	439,666	64,429	602	503,493
Equipment	92,357	11,741	3,301	100,797
Other Fixed Assets	83,013	5,564	361	88,216
Construction in Progress	66,019	55,454	53,552	67,921
Intangible Assets	3,341	161	231	3,271
Total	$ 697,937	$ 137,376	$ 58,104	$ 777,209

6. RETIREMENT SYSTEMS

DEFINED CONTRIBUTION PLAN

Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP participate in the Teachers' Retirement System, a defined benefit plan discussed in the next section. Beginning July 1, 1993, membership in the ORP is mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. As of June 30, 1999, 3,239 employees are members of the ORP. Required employee contributions are 7.044% of salary and required employer contributions are 4.956% of salary for a total of 12% of salary contributed to the ORP.

	TIAA-CREF (in thousands)
Covered Payroll	$ 72,274
Total Payroll	223,253
Employer Contributions	$ 3,592
Percent of Covered Payroll	4.956%
Employee Contributions	$ 5,093
Percent of Covered Payroll	7.044%

DEFINED BENEFIT PLANS

A. General

The Public Employees' Retirement Board, a discretely presented component unit of the State of Montana, administers eight defined benefit plans - Public Employees' Retirement System (PERS), Highway Patrol Officers' Retirement System (HPORS), Judges' Retirement System (JRS), Game Wardens' and Peace Officers' Retirement System (GWPORS), Sheriffs' Retirement System (SRS), Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and Volunteer Firefighters' Compensation Act (VFCA). The board prepares a publicly issued financial report that includes financial statements and required supplementary information for PERS, HPORS, JRS, GWPORS, SRS, MPORS, FURS, and VFCA.

The Teachers' Retirement System (TRS) is a discretely presented component unit of the State of Montana. The system prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS.

A summary of government employers participating in PERS, SRS, MPORS, FURS, GWPORS and TRS by employer type at June 30, 1999 follows:

	Retirement System					
	PERS	SRS	MPORS	FURS	GWPORS	TRS
Employers						
State Agencies	37	1			5	6
Counties	55	55				
Cities/Towns	88		21	14		
Colleges/Universities	6				3	12
School Districts	236					393
Other	82					
Total	504	56	21	14	8	411

B. Plan Descriptions

The State contributes to and/or administers nine plans in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination and disability benefits. The post-retirement benefits of each of the systems are included in the plan descriptions below. In addition, the 1997 Legislature passed a guaranteed annual benefit adjustment (GABA) to the PERS, MPORS, GWPORS, SRS, JRS, HPORS, and FURS that will provide a benefit increase of 1.5% each January, beginning January 1998, if the recipient has been receiving a retirement benefit for at least 36 months. In addition, MPORS, JRS, HPORS & FURS members hired prior to July 1, 1997, and retirees of these systems, were required to make an election by December 31, 1997, for GABA coverage.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law; contribution requirements are not actuarially determined. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry age normal cost method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost in addition to amortizing the unfunded liability over a period not to exceed 30 years.

(1) State as the Single Employer

HPORS - Highway Patrol Officers' Retirement System - This system, established in 1971 and governed by Title 19, chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all uniformed members of the Montana Highway Patrol, including supervisory personnel. Rights are vested after five years of service. Member contributions are 9% of total salaries of active highway patrol officers hired prior to July 1, 1997 and not electing GABA coverage; and 9.05% for members hired after June 30, 1997 and members electing GABA coverage. The employer contribution rate is 36.33% of active officers' salaries. For members hired on or before July 1, 1985, there is no minimum age, but minimum service is 20 years for benefit eligibility. A member hired after July 1, 1985, must be 50 years old and have 20 years of creditable service for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the final average salary. Post-retirement benefits, for non-GABA members, are in the form of minimum benefit supplements which ensure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit nor 60% of the current base salary of a probationary officer. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, may be eligible for an annual lump sum payment distributed in September. This lump sum payment is funded by a registration fee of 25 cents per vehicle license. The average payment in fiscal year 1999 was $2,025. This enhancement is limited to non-GABA members.

JRS - Judges' Retirement System - This system, established in 1967 and governed by Title 19, chapters 2 & 5 of the MCA, provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salaries and the State contributes 25.81% of active judges' salaries. Rights are vested after five years of creditable service. For benefit eligibility, minimum service is five years and the minimum age is 65. The monthly retirement benefit formula is 3 1/3% per year of the member's final average salary for the first 15 years of credited service, plus 1.785% per year for each year of credited service after 15 years. For non-GABA members, the percentages are based on the member's current salary, instead of the final average salary.

(2) State as an Employer Contributor to Cost-Sharing Multiple-Employer Systems

PERS - Public Employees' Retirement System - This mandatory system, established in 1945 and governed by Title 19, chapters 2 & 3 of the MCA, provides retirement benefits to substantially all public employees not covered by another public system. Member contributions were 6.8% of covered compensation for fiscal year 1999. Each state agency and university system employer contributed 6.8% of PERS covered payroll during fiscal year 1999. Participating local governments and school district employers contributed 6.7% of PERS covered payroll. The State contributed 0.1% for local governments and school district employers from the state general fund. Effective July 1, 1999, member contribution rates increase to 6.9%. The employer contribution rate increases to 6.9% for all state and university employers. The rate will increase to 6.8% for local government and school district employers, and the State will continue to contribute 0.1% of compensation from the state general fund. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking the greater of: (1) 1.785% times the number of years of service times the final average salary times any early retirement reduction if necessary or (2) a monthly annuity that is the actuarial equivalent of twice the member's accumulated regular contributions. Members' rights are vested after five years of service.

TRS - Teachers' Retirement System - This mandatory system, established in 1937 and governed by Title 19, chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system. Member and employer contributions are 7.044% and 7.47%, respectively, of earned compensation. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for annual benefits is 1.6667% times creditable service years times the average final compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Effective January 1, 1988, university system employees eligible to participate in the Teachers' Retirement System could elect to participate in an Optional Retirement Plan established by the Board of Regents. A supplemental employer contribution to TRS is required to be amortized by July 1, 2003, the amount that would not be paid for by contributions of university system members. The fiscal year 1999 contribution percentage of the total compensation of employees participating in the ORP program is 3.12% and the contribution is $2.1 million. The unfunded actuarial accrued liability is included in the Schedules of Funding Progress.

SRS - Sheriffs' Retirement System - This system, established in 1974 and governed by Title 19, chapters 2 & 7 of the MCA, covers all sheriffs, and State Department of Justice investigators hired after July 1, 1993. The member contribution is 9.245% of salary; the employer contribution is 9.535% of salary. Minimum years of service for normal service retirement eligibility are 20. The service retirement benefit is calculated at 2.5% of the final average salary for each year of creditable service. Reduced benefits for early retirement may be taken with a minimum of five years of service and a minimum age of 50. Rights are vested after five years of service.

GWPORS - Game Wardens' & Peace Officers' Retirement System - This system, established in 1963 and governed by Title 19, chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel and state peace officers not eligible to join the SRS, HPORS and MPORS systems. The member contributes 8.5% of salary and the State contributes 9.0% of covered active employees' salaries. For benefit eligibility, minimum age is 50 and minimum years of service are 20. If subject to involuntary termination, a member may retire with five years of service at age 55. The yearly retirement benefit formula is 2% times the number of years of service times the final average salary. Rights are vested after five years of service. PERS members who are hired into a position covered by the GWPORS have 30 days to elect membership in the GWPORS or remain in PERS.

(3) State as a Nonemployer Contributor to Cost-Sharing Multiple-Employer Systems

MPORS - Municipal Police Officers' Retirement System - The system, established in 1975 and governed by Title 19, chapters 2 & 9 of the MCA, covers all municipal police officers of cities covered by the plan. It is a cost-sharing plan with a special funding situation. The member contribution is 7.8% of salary for members employed prior to July 1, 1975; 9% of salary for members employed after June 30, 1975, and prior to July 1, 1979; 10.5% of salary for members employed after June 30, 1979 and prior to July 1, 1997; and 11% for members hired on or after July 1, 1997 and members electing GABA. City contributions are 14.41% of active police officers' salaries. The State contributes 29.37% of active police officers' salaries. The State's contribution is funded from the general fund. Rights are vested after five years of service. Minimum years of service are five for benefit eligibility at age 50, or 20 years of service at any age. The service retirement benefit is 2.5% times the number of years of service times the final average compensation. For non-GABA members, a minimum benefit adjustment is required to insure that the retired member's benefit is not less than one-half of the compensation paid to newly confirmed police officers in the city that last employed the member.

FURS - Firefighters' Unified Retirement System - This system, established in 1981 and governed by Title 19, chapters 2 & 13 of the MCA, provides retirement benefits for firefighters employed by first and second class cities and other cities that wish to adopt the plan. It is a cost-sharing plan with a special funding situation. The member contribution is 9.5% of compensation for members hired prior to July 1, 1997, and 10.7% for new hires after June 30, 1997, and for members electing GABA coverage. City contributions are 14.36% of total annual compensation. The State contribution is 32.61% of total annual compensation for all firefighters and is paid out of the general fund. Minimum benefit eligibility is 20 years regardless of age; unless hired prior to July 1, 1981, then only 10 years are required. For members not electing GABA and hired prior to July 1, 1981, monthly retirement benefit is 50% of final average compensation plus 2% per year for each year in excess of 20 years, or 2.5% of final average compensation per year. Members hired before July 1, 1981, with a minimum of ten years but less than 20 years, receive a retirement benefit of 2% per year of service. Members electing GABA and hired after July 1, 1981, receive 2.5% per year of service. Post-retirement benefits, for non-GABA members, require that each retiree receive at least 50% of the salary paid a newly confirmed active firefighter. Rights are vested after five years of service.

(4) State as a Nonemployer Contributor

VFCA - Volunteer Firefighters' Compensation Act - This compensation program, established in 1965 and governed by Title 19, chapter 17 of the MCA, provides medical benefits and pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. VFCA is a plan with a special funding situation. The State contribution is 5% of fire insurance premium taxes collected. Rights are vested after ten years of qualified service. Eligibility requirements are 55 years of age and 20 years qualified service for a full benefit or 60 years of age and a minimum of 10 years qualified service for a partial benefit.

C. Summary of Significant Accounting Policies

The defined benefit plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

D. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the retirement systems. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement systems have no investments of any commercial or industrial organization whose fair value equals 5% or more of the retirement systems' net assets available for benefits.

E. Long-Term Contracts for Contributions

The Public Employees' Retirement System has outstanding contributions for early retirement programs:

The 1993 Montana Legislature enacted House Bill 517--Retirement Incentive Program (RIP) providing PERS members (eligible for a service retirement) an incentive to terminate between June 25, 1993 and December 31, 1993. Local government employers participated through election on or before June 1, 1993. The employer purchased, on the member's behalf, one year of additional service for each five years of qualified service ("1 for 5"), up to a maximum of three years, for any retirement eligible member who terminated employment during the defined time period. A total of 898 members took advantage of the program (630 from 32 state agencies, 95 from 6 universities, and 173 from 48 local government agencies).

The Montana Legislature also provided a new provision of the Employee Protection Act (EPA) (19-2-706, MCA) allowing State employees (eligible for a service retirement) whose positions have been eliminated to have their employer purchase up to three years of "1 for 5" additional service. As of June 30, 1999, 184 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received (including interest) during fiscal year 1999 totaled $167,928. June 30, 1999, outstanding balances are $445,614.

F. Actuarial Data

Actuarial valuations are performed every two years. Hendrickson, Miller & Associates Inc., Helena, MT, prepared the actuarial reports for the retirement systems, excluding TRS, before July 1, 1998. Employee Benefit Resources, LLP, of Helena, MT, prepared the July 1, 1998, actuarial reports for the retirement systems, excluding TRS. Milliman & Robertson, Inc., of Seattle, WA., performed the actuarial valuation for TRS.

G. Funding Policy and Annual Pension Cost

The following tables provide information concerning funding policies and annual pension costs (in thousands):

Single Employer Systems		
	HPORS	JRS
Annual pension cost	$ 2,602	$ 823
Contributions		
Employer	$ 1,652	$ 823
Employee	598	223
License and Registration fees	942	-
Actuarial valuation date	7/01/98	7/01/98
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	20.28 years	24.64 years
Asset valuation method	4 year smoothed market	4 year smoothed market
Actuarial Assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases (includes inflation factor)	6.0%	5.5%
Cost of living adjustment	6.0%	5.5%
Postretirement benefit increases	None	None

Single Employer Systems			
Year Ended	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
HPORS			
06/30/97	$ 2,570	100.0%	NONE
06/30/98	$ 2,595	103.2%	NONE
06/30/99	$ 2,602	99.7%	NONE
JRS			
06/30/97	$ 1,128	87.5%	$3,086
06/30/98	$ 843	100.0%	NONE
06/30/99	$ 823	100.0%	NONE

Multiple Employer Systems			
Year Ended	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
PERS			
06/30/97	$ 43,182	100.0%	NONE
06/30/98	45,223	100.0%	NONE
06/30/99	47,125	101.6%	NONE
MPORS			
06/30/97	$ 7,355	100.0%	NONE
06/30/98	7,840	100.0%	NONE
06/30/99	8,297	99.8%	NONE
FURS			
06/30/97	$ 6,811	100.0%	NONE
06/30/98	7,094	97.8%	NONE
06/30/99	7,401	99.4%	NONE
SRS			
06/30/97	$ 1,618	100.0%	NONE
06/30/98	1,919	100.0%	NONE
06/30/99	1,995	104.4%	NONE
GWPORS			
06/30/97	$ 242	100.0%	NONE
06/30/98	706	100.0%	NONE
06/30/99	892	104.4%	NONE
TRS			
06/30/97	$ 41,640	100.0%	NONE
06/30/98	44,476	100.0%	NONE
06/30/99	44,987	100.0%	NONE

H. Schedules of Funding Progress

Single Employer Systems						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
HPORS						
07/01/94	$40,466	$63,327	$22,861	63.90%	$5,650	404.60%
07/01/96	47,325	67,709	20,384	69.90%	6,242	326.57%
07/01/98	59,531	78,722	19,191	75.62%	6,201	309.48%
JRS						
07/01/94	$21,281	$23,171	$ 1,890	91.84%	$2,777	68.06%
07/01/96	24,944	27,723	2,779	89.98%	2,907	95.61%
07/01/98	31,646	29,017	(2,629)	109.06%	3,144	(83.62)%

Multiple Employer Systems						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
PERS						
07/01/94	$1,366,864	$1,625,720	$258,856	84.08%	$572,974	45.18%
07/01/96	1,629,706	1,826,207	196,500	89.24%	608,592	32.29%
07/01/98*	2,128,065	2,300,328	172,263	92.51%	660,579	26.08%
MPORS						
07/01/94	$ 56,209	$ 90,507	$ 34,298	62.10%	$ 13,395	256.05%
07/01/96	70,068	105,664	35,596	66.31%	15,828	224.90%
07/01/98	94,908	173,642	78,734	54.66%	17,873	440.52%
FURS						
07/01/94	$ 54,647	$ 113,153	$ 58,506	48.29%	$ 12,424	470.90%
07/01/96	67,745	131,111	63,366	51.67%	13,783	459.75%
07/01/98	89,988	169,006	79,018	53.25%	15,104	523.15%
SRS						
07/01/94	$ 55,220	$ 42,978	$ (12,242)	128.48%	$ 15,869	(77.14)%
07/01/96	68,647	52,751	(15,895)	130.13%	17,890	(88.85)%
07/01/98	92,160	81,077	(11,083)	113.67%	20,127	(55.06)%
GWPORS						
07/01/94	$ 16,297	$ 16,389	$ 92	99.44%	$ 2,494	3.70%
07/01/96	18,160	17,325	(835)	104.82%	2,762	(30.23)%
07/01/98	23,190	22,412	(778)	103.47%	7,839	(9.92)%
TRS						
07/01/94	$1,157,512	$1,712,933	$555,421	67.6%	$472,860	117.4%
07/01/96	1,376,716	1,939,569	562,853	71.0%	501,516	112.2%
07/01/98**	1,809,037	2,342,690	533,653	77.2%	529,795	100.7%

* PERS July 1, 1998 results adjusted by actuary.

** TRS July 1, 1998 results adjusted for 1.5% guaranteed annual benefit adjustment and $500 minimum benefit for legislation which passed in April 1999 and the new salary scale adopted in November 1998.

Nonemployer Contributor						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
VFCA						
07/01/93	$ 8,760	$15,211	$6,451	57.59%	N/A	N/A
07/01/96	11,504	16,636	5,132	69.15%	N/A	N/A
07/01/98	13,941	18,354	4,413	75.96%	N/A	N/A

7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Systems, the following postemployment benefits are provided:

The State provides 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Federal Consolidated Omnibus Reconciliation Act (COBRA) to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are receiving employee health care benefits at the time they discontinue State employment and (2) dependents who lose dependent eligibility. At June 30, 1999, 105 certificate holders were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established medical premiums vary between $127 and $324 per month depending on the medical plan selected, family coverage and Medicare eligibility. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 1999, 3,045 retirees were receiving health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-payments of the member's selected medical plan). Dental claims are reimbursed at 50% to 100% depending on the services provided. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of $13,214,473 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to $8,641,404 leaving $4,573,069 of claims in excess of premium revenue paid by the State.

In accordance with section 2-18-702, MCA, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers' Retirement System, Public Employees' Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS at least 5 years. Spouses, unmarried dependent children, and surviving spouses are also eligible. Administratively established premiums vary between $143 and $419 per month and are revised annually. Medicare eligible plan members are assumed to be Medicare insured. After an annual $500 deductible for non-Medicare eligible retirees, the MUS plan reimburses 75% of the first $8,000 in medical claims and 100% thereafter. After a $350 deductible for Medicare eligible retirees, the plan reimburses 75% for the first $4,000 in medical claims and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 1999, 1,275 retirees were enrolled in the MUS plan. Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 1999, estimated expenditures of $4,290,864 were recognized for postemployment health care benefits. Of this amount $3,084,786 was paid by retirees through premiums and the balance of $1,206,078 was paid by the MUS.

8. DEFERRED COMPENSATION PLAN

Since 1976, the State of Montana has offered a deferred compensation plan which allows employees to set aside a portion of their salary toward retirement while deferring the State and Federal income taxes until future years. The compensation deferred is not available to employees until separation from State service, retirement, death or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457; Title 19, chapter 50, MCA reflects these changes. Assets of the deferred compensation plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries.

All employees of the State, including the Montana University System and contracted employees, are eligible to participate. Participating employees are able to invest their deferrals in two primary options: 1) a "fixed" or stable value option which guarantees both principal (the payroll deferral) and a quarterly rate of earnings; and 2) a "variable" option which currently consists of twenty-seven (27) mutual funds. Participating employees are allowed to utilize both options and, under the variable option, as many of the offered mutual funds as they choose. As of June 30, 1999, the net assets of the Plan were $179.924 million.

9. RISK MANAGEMENT

There are two Primary Government public entity risk pools and two Component Unit public entity risk pools that are reported within the Enterprise Fund Type: Primary Government pools include Hail Insurance and Subsequent Injury Funds; Component Unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are three Primary Government Other Than Public Entity Risk Pools reported within the Internal Service Fund Type: Group Employees' Comprehensive Medical and Dental Plan, Montana University System (MUS) Group Benefits Plan and Property and Casualty Insurance Plans. In all of these funds there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. None of these funds have acquisition costs; therefore, no cost is amortized for the period. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance - Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the hail insurance program. The Hail Insurance program issued 2003 policies during the 1999 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency of which there is none.

A claim must be submitted to the State Board of Hail Insurance within fourteen days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of $200,019 based on estimated claims through June 30, 1999. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Subsequent Injury - This fund provides benefits to workers, certified as a person with a disability, who are injured on the job and entitled to benefits under the Workers' Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104 week time period. In Montana, there are 2,340 individuals with certified disabilities.

Workers' compensation insurance premium experience modification factors are influenced by the 2 year limitation and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 1999, the amount of this liability is estimated to be $2,105,567.

(3) State Compensation Insurance (New Fund) - Liability coverage to employers for injured employees who are insured under the Workers' Compensation and Occupational Disease Acts of Montana and workers' compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund must insure any employer who desires coverage. At fiscal year-end, approximately 23,269 employers were insured with the New Fund. Montana state governmental agencies must obtain their workers' compensation coverage through the New Fund. Anticipated investment income is considered for computing a premium deficiency and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast - Towers Perrin, as of June 30, 1999, has estimated liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 1999, $303,500,030 of unpaid claims and claim adjustment expenses are presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

The New Fund uses reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer. The New Fund did not deduct any claim liabilities related to potential reinsurance recoverable.

Statute requires the New Fund set premiums at least annually at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus balance of 25% of annual premium revenue.

(4) State Compensation Insurance (Old Fund) - The liability and payment of worker's compensation claims for incidents occurring before July 1, 1990 are reported in the Old Fund. Funding for claim payments was accumulated through an Old Fund Liability Tax (OFLT) imposed on employers' payroll, employees' wages and sole proprietors' and subchapter S shareholders' distributive income. In 1999, the 56th Legislature determined that the fund was adequately funded and discontinued the OFLT. This fund does not compute a premium deficiency.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 1999, was used to estimate liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. At June 30, 1999, $185,064,668 of unpaid claims and claim adjustment expenses are presented at net present value of $130,063,841, discounted at a 5.5% rate. In previous years, the unpaid claims and unpaid claim adjustment expenses were presented at face value. Total Old Fund surplus as of June 30, 1999, is $14,376,735 compared to a deficit of $70,585,411 as of June 30, 1998, for a change of $84,962,146. Of this change, $55,000,827 is due to discounting the unpaid claims and claim adjustment expenses.

(5) Changes in Claims Liabilities For the Past Two Years - As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

Primary Government	HAIL INSURANCE		SUBSEQUENT INJURY	
	1999	1998	1999	1998
Unpaid claims and claim adjustment expenses at beginning of year	$ 475	$ 505	$ 1,017	$ 1,154
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	2,221	1,601	-	-
Increase (Decrease) in provision for insured events of prior years	(129)	(65)	1,324	100
Total incurred claims and claim adjustment expenses	2,092	1,536	1,324	100
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(1,762)	(996)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(605)	(570)	(235)	(237)
Total payment	(2,367)	(1,566)	(235)	(237)
Total unpaid claims and claim adjust. exp. at end of the year	$ 200	$ 475	$ 2,106	$ 1,017

Component Units	STATE COMPENSATION INSURANCE (NEW FUND)		STATE COMPENSATION INSURANCE (OLD FUND)	
	1999	1998	1999	1998
Unpaid claims and claim adjustment expenses at beginning of year	$310,687	$344,632	$194,401	$205,678
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	69,390	69,277	-	-
Increase (Decrease) in provision for insured events of prior years	(15,791)	(44,165)	3,686	3,347
Total incurred claims and claim adjustment expenses	53,599	25,112	3,686	3,347

Component Units	STATE COMPENSATION INSURANCE (NEW FUND) 1999	1998	STATE COMPENSATION INSURANCE (OLD FUND) 1999	1998
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(14,878)	(12,942)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(45,908)	(46,115)	(13,023)	(14,624)
Total payment	(60,786)	(59,057)	(13,023)	(14,624)
Total unpaid claims and claim adjust. exp. at end of the year	$303,500	$310,687	$185,064	$194,401

(6) Risk Management Trend Information

The following table only presents risk management trend information for the State Compensation Insurance (New Fund). Only the New Fund has a three to five year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services; its funding source is the old fund liability tax. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The table below illustrates how the earned revenues (net of reinsurance) of the New Fund and its investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Section 3 shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest reestimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be expanded and revised as data for successive policy years develops.

	STATE COMPENSATION INSURANCE (NEW FUND) 1991	1992	1993	1994	1995
1. **Premiums and Investment Revenue**					
Earned	$117,215	$157,741	$207,290	$223,309	$184,149
Ceded	231	270	289	318	269
Net Earned	$116,984	$157,471	$207,001	$222,991	$183,880
2. **Unallocated expenses including overhead**	$ 9,853	$ 11,697	$ 13,177	$ 14,234	$ 15,701
3. **Estimated losses and expenses end of accident year**					
Incurred	$133,819	$183,425	$186,480	$199,890	$164,628
Ceded	-	-	-	-	-
Net Incurred	$133,819	$183,425	$186,480	$199,890	$164,628
4. **Net Paid (cumulative) as of:**					
End of policy year	$ 17,618	$ 20,244	$ 18,347	$ 18,693	$ 18,137
One year later	44,335	50,576	48,343	45,947	40,473
Two years later	64,079	68,837	62,717	60,971	52,073
Three years later	74,901	77,950	71,666	67,576	58,722
Four years later	81,747	83,173	76,280	72,212	62,419
Five years later	85,924	86,461	80,165	75,799	
Six years later	88,532	89,370	82,981		
Seven years later	91,235	91,902			
Eight years later	93,381				
5. **Re-estimated ceded losses and Expenses**	-	-	1,967	2,283	-

	STATE COMPENSATION INSURANCE (NEW FUND)			
	1996	1997	1998	1999
1. **Premiums and Investment Revenue**				
Earned	$129,081	$97,476	$81,823	$68,945
Ceded	519	348	303	260
Net Earned	$128,562	$97,128	$81,520	$68,685
2. **Unallocated expenses including overhead**	$ 18,640	$14,051	$16,182	$21,786
3. **Estimated losses and expenses end of accident year**				
Incurred	$ 95,067	$76,067	$64,983	$64,645
Ceded	-	-	-	838
Net Incurred	$ 95,067	$76,067	$64,983	$63,807
4. **Net Paid (cumulative) as of:**				
End of policy year	$ 15,818	$12,589	$12,943	$13,723
One year later	32,890	28,451	28,222	
Two years later	42,361	35,706		
Three years later	47,283			
Four years later				
Five years later				
Six years later				
Seven years later				
5. **Re-estimated ceded losses and Expenses**	2,471	7,439	1	838

	STATE COMPENSATION INSURANCE (NEW FUND)				
	1991	1992	1993	1994	1995
6. **Re-estimated net incurred losses and expense:**					
End of policy year	$133,819	$183,425	$186,480	$199,890	$164,628
One year later	166,980	184,968	184,030	184,920	124,123
Two years later	160,272	175,218	167,052	135,472	107,074
Three years later	151,554	161,184	133,017	116,756	95,456
Four years later	141,389	135,775	120,583	107,656	94,517
Five years later	130,250	125,084	111,208	105,052	
Six years later	121,568	119,780	109,415		
Seven years later	118,856	120,472			
Eight years later	118,948				
7. **Increase (decrease) in estimated net incurred losses and expenses from end of policy year**	($14,871)	($62,953)	($77,065)	($94,838)	($70,111)

	STATE COMPENSATION INSURANCE (NEW FUND)			
	1996	1997	1998	1999
6. **Re-estimated net incurred losses and expense:**				
End of policy year	$95,067	$76,067	$64,983	$63,807
One year later	88,923	67,235	64,308	
Two years later	77,286	59,054		
Three years later	73,864			
Four years later				
Five years later				
Six years later				
Seven years later				
7. **Increase (decrease) in estimated net incurred losses and expenses from end of policy year**	($21,203)	($17,013)	($675)	

B. Other Than Public Entity Risk Pools

(1) Group Employee Comprehensive Medical and Dental Plan - This plan is fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees and their dependents, with three exceptions. The three outside insured products are: vision care insured by the Vision Service Plan Insurance Company, the Yellowstone Community Health Plan, an insured community health option (CHO) available to state employees in four counties in the Billings area and the New West Plan, an insured CHO available to state employees in several counties in the Missoula, Deer Lodge, Helena and Billings areas. Premiums are collected through payroll deductions, deductions through the Public Employees' Retirement Division and self-payment and are recorded as revenue in the Employees' Group Benefits Internal Service Fund. At June 30, 1999, estimates for claims liabilities, which include incurred but not reported claims, are $6,903,426 and are based on a formula provided by The Segal Company, a consulting actuarial firm. A liability is reported in the accompanying financial statements for these estimated claims.

(2) Montana University System (MUS) Group Benefits Plan - This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System, the Montana Higher Education Student Assistance Corporation (MHESAC), and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured. Blue Cross/Blue Shield is the claims administrator on the plan. Managed Care Montana (Blue Cross/Blue Shield of Montana) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Internal Service Fund. The claims liability is calculated by Buck Consultants and estimated to be $1,877,844 as of June 30, 1999, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Property & Casualty Insurance Plans - This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability and State-administered foreclosure housing units. The State self-insures the $150,000 deductible per occurrence for most property insurance as well as various deductible amounts for other state property. The State also self-insures against losses of property below $150,000 of value, with State agencies paying the first $1,000. Commercial property insurance protects approximately $2.1 billion of State-owned buildings and contents. The State property insurance includes annual earthquake and flood protection of $400 million and $100 million, respectively, with deductibles of $1 million for earthquake and $500,000 for flood per occurrence. Premiums are collected from all State agencies including Component Units and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Tillinghast, a Towers Perrin Company, and issued for the accident period July 1, 1991, through June 30, 1998, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 1999, estimated claims liability of $17,099,859, discounted and assumes an annual rate of return of 4%, including those claims incurred but not reported, and is reported in the accompanying financial statements (See Note 14).

(4) Changes in Claims Liabilities For the Past Two Years - These funds establish liabilities for both reported and incurred but not reported claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Medical & Dental		MUS Group Benefits		Prop. & Casualty Insurance	
	1999	1998	1999	1998	1999	1998
Amount of claims liabilities at the beginning of each fiscal year	$ 6,501	$ 7,156	$ 1,942	$ 3,700	$13,771	$12,825
Incurred claims:						
Provision for insured events of the current year	46,100	42,936	19,710	22,076	4,997	5,185
Increases (Decreases) in provision for insured events of prior years	402	(655)	(64)	(1,758)	4,438*	748
Total incurred claims	46,502	42,281	19,646	20,318	9,435	5,933
Payments:						
Claims attributable to insured events of the current year	(46,100)	(42,936)	(19,710)	(22,076)	(562)	(1,436)
Claims attributable to insured events of prior years	-	-	-	-	(5,544)	(3,551)
Total Payments	(46,100)	(42,936)	(19,710)	(22,076)	(6,106)	(4,987)
Total claims liability at end of each fiscal year	$ 6,903	$ 6,501	$ 1,878	$ 1,942	$17,100	$13,771

* The previously recorded projections of unpaid losses for 1998 were understated because the paid losses for fiscal year 1998 were incorrectly applied to the actuarial projection at June 30, 1998. This adjustment is reflected as a prior period adjustment on the financial statements.

10. COMMITMENTS

A. Highway Construction - At June 30, 1999, the Department of Transportation had contractual commitments of approximately $188.3 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction - At June 30, 1999, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $32.1 million for capital projects construction. The Primary Government will fund $28.8 million of these projects with the remaining $3.3 million coming from higher education funds.

C. Proprietary Fund Commitments - Budgets are administratively established in the Enterprise and Internal Service Funds, excluding depreciation, compensated absences and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unreserved retained earnings in the accompanying financial statements as follows (in thousands):

PRIMARY GOVERNMENT

Enterprise Funds	AMOUNT
Liquor Warehouse	$ 11
Surplus Property	60
Historical Society Publications	1
Hail Insurance	1
Subtotal-Enterprise Funds	$ 73
Internal Service Funds	
Highway Equipment	$ 1,314
FWP Equipment	643
ISD	372
Motor Pool	151
Administration Insurance	14
Administration Supply	130
Publications & Graphics	45
Buildings & Grounds	226
Labor Central Services	80
Commerce Central Services	16
DEQ Indirect Cost Pool	74
FWP Warehouse Inventory	13
Investment Division	5
Mail & Messenger	4
Subtotal-Internal Service Funds	$ 3,087
Total-Primary Government	$ 3,160
COMPONENT UNITS	
State Compensation Ins. - New Fund	1,182
Total-Proprietary Fund Types-Reporting Entity	$ 4,342

11. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected that in the normal course of operations most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases - Changes in capitalized leases/installment purchases are as follows (in thousands):

Primary Government	Balance July 1, 1998	Additions (Deductions)	Balance June 30, 1999
General Long-Term Obligations	$ 2,178	$ (798)*	$ 1,380
Proprietary Fund Types			
Enterprise Fund	$ 1	$ 5,024	$ 5,025
Internal Service Fund	2,903	1,825	4,728
Total Proprietary	2,904	6,849	9,753
Total-Primary Government	$ 5,082	$ 6,051	$ 11,133

Component Units			
Pension Trust Fund	$ -	$ 227	$ 227
Higher Education Funds	975	182	1,157
Total-Component Units	$ 975	$ 409	$ 1,384
Total Capitalized Leases/ Installment Purchases	$ 6,057	$ 6,460	$ 12,517

*This amount consists of $195,000 of additions as inceptions; $401,000 of additions as adjustments; and $1,394,000 as deductions.

Future minimum lease payments under capital leases/installment purchases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government: General Long-Term Obligations	Primary Government: Proprietary Fund Types: Enterprise	Primary Government: Proprietary Fund Types: Internal Service	Component Units: Pension	Component Units: Higher Education Funds	Totals
2000	$ 887	$ 1,099	$ 2,234	$ 349	$ 583	$ 5,152
2001	364	1,146	1,566	-	304	3,380
2002	241	1,145	572	-	203	2,161
2003	6	1,146	136	-	161	1,449
2004	6	1,145	74	-	28	1,253
2005+	-	-	401	-	-	401
Total minimum pmts	$ 1,504	$ 5,681	$ 4,983	$ 349	$ 1,279	$ 13,796
Less: Interest	124	656	255	122	122	1,279
Present value of minimum payments	$ 1,380	$ 5,025	$ 4,728	$ 227	$ 1,157	$ 12,517

B. Operating Leases - Total rental payments of primary government and component units for operating leases in fiscal year 1999 were $6,370,000 and $464,000, respectively. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Component Units	Totals
2000	$ 5,485	$ 401	$ 5,886
2001	4,286	268	4,554
2002	3,229	151	3,380
2003	2,372	22	2,394
2004	1,988	13	2,001
2005+	9,231	2	9,233
Total future rental payments	$ 26,591	$ 857	$ 27,448

12. STATE DEBT

A. General Information - The State has no constitutional limit on its power to issue obligations or incur debt other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-Term Debt - The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued.

The Board of Investments (BOI) of the State of Montana is authorized to issue Municipal Finance Consolidation Act Bonds which may not aggregate more than $75 million. The purpose of the bonds is to provide funds for the BOI to make loans to eligible local government units. The bonds are not in any way a debt or liability of the State of Montana. The bonds are limited obligations of the BOI payable solely from repayments of principal and interest on loans made by the BOI to participating local government units, investment income under the indenture and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the Trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and have been classified as short-term debt. The amounts issued and outstanding at June 30, 1999, are as follows (in thousands):

Series	Amount Issued	Balance June 30, 1999
1991	$ 5,000	$ 4,750
1992	6,500	6,235
1994	7,500	7,200
1995	7,500	7,385
1997	10,000	9,930
1998	12,500	12,430
TOTAL		$ 47,930

C. Long-Term Debt - The full faith, credit and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue bonds and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees and assets of the State and the various colleges and universities. Long-term debt (excluding bonds/notes of Enterprise Funds and Internal Service Funds discussed elsewhere in this footnote; Leases - Note 11 and Compensated Absences - Note 1) of the State at June 30, 1999, is as follows (in thousands):

				Principal Payments		
General Obligation Debt	Series	Amount Issued	Interest Range (%)	In Year of FY 2000	Maturity (13)	Balance June 30, 1999
Long-Range Bldg Program	1985A	$ 8,550	8.0	$ 150	$150 (2001)	$ 300
Water Development Program (1)	1988	500	9.4	25	50 (2009)	345
Water Development Program (1)	1989B	500	8.55	20	50 (2010)	370
Water Development Program (1)	1991A	750	8.0	45	90 (2007)	525
Wastewater Treatment Works	1991B	2,595	5.9-6.8	90	215 (2014)	2,150
GO Refunding	1992	31,330	5.0-6.2	365	390 (2010)	4,615
Energy Conservation Program (2)	1993A	1,500	4.2-4.75	150	180 (2004)	825
Long-Range Bldg Program	1993B	3,185	3.8-4.25	250	310 (2004)	1,390
Renewable Resource Development(1)	1993C	750	5.05-5.65	75	95 (2004)	425
Long-Range Bldg Program	1994A	22,540	4.2-6.0	880	1,725 (2014)	18,700
Wastewater Treatment Works	1994B	2,200	4.75-6.1	75	180 (2016)	2,000
Long-Range Bldg Program	1994C	21,955	5.125-7.0	775	1,000 (2005)	5,295
Energy Conservation Program (2)	1994D	1,600	5.0-5.5	155	200 (2005)	1,055
Renewable Resource Development (1)	1994E	750	7.7-8.5	70	105 (2005)	515
Energy Conservation Program (2)	1996A	1,650	3.9-4.4	150	195 (2006)	1,200
Renewable Resource Development (1)	1996B	1,250	5.6-6.1	110	155 (2006)	920
Wastewater Treatment Works	1996C	2,765	4.4-5.75	105	120 (2017)	2,610
Long-Range Bldg Program	1996D	30,075	5.25-6.0	1,010	2,370 (2017)	28,240
Renewable Resource Development (1)	1996E	1,000	6.95-7.75	85	130 (2007)	850
Renewable Resource Development (1)	1997A	2,000	6.8-8.0	85	210 (2013)	1,920
Long-Range Bldg Program	1997B	12,640	4.6-5.0	675	595 (2018)	11,990
Wastewater Treatment Works	1998A	3,510	3.75-5.15	115	260 (2019)	3,510
Long-Range Bldg Program	1998B	34,545	3.5-4.85	1,180	2,555 (2018)	33,350
Information Technology	1998C	41,390	4.5-5.0	4,430	4,075 (2008)	37,060
Long-Range Bldg Program	1998D	14,855	4.4-5.0	85	1,720 (2015)	14,635
Energy Conservation Program (2)	1998E	1,250	3.9-4.6	110	150 (2008)	1,135
Drinking Water Revolving Fund (10)	1998F	3,065	3.6-4.85	-	230 (2019)	3,065
Resource Prgm Loans-Taxable (1)	1999	1,035	6.0-6.5	-	105(2015)	1,035
Long-Range Bldg Program	1999C	16,990	4.0-5.0	770	1,250(2019)	16,990
Total General Obligation Debt		$ 266,725		$ 12,035		$ 197,020
Special Revenue Bonds						
Water Conservation (3)	-	50	5.0	2	1 (2012)	26
Water Development Program (4)	1987C	1,215	7.0-7.6	60	120 (2008)	790
Broadwater Power Project (4)(6)	1990A	3,800	9.5	430	505 (2002)	1,400
Broadwater Power Project (4)(5)	1991A	21,735	6.4-6.875	-	2,135 (2018)	21,735
Water Development Program (4)	1992A	11,955	5.2-6.1	890	1,250 (2006)	7,405
Water Development Program (4)	1992B	9,375	5.0-6.0	355	795 (2013)	7,570

Special Revenue Bonds	Series	Amount Issued	Interest Range (%)	Principal Payments FY 2000	Principal Payments In Year of Maturity (13)	Balance June 30, 1999
Department of Transportation	1993	72,375	4.7-5.05	11,355	3,705 (2004)	52,510
Renewable Resource Program (4)	1996A	14,985	4.15-5.2	975	110 (2017)	12,275
Renewable Resource Program (4)	1997A	1,205	6.3-7.3	30	110 (2017)	1,175
Renewable Resource Program (4)	1997B	2,660	4.1-5.375	85	210 (2017)	2,580
Developmental Center Project (9)	1994	13,100	5.2-6.4	335	1,015 (2019)	12,115
State Hospital Project (9)	1997	25,915	4.0-5.0	655	1,820 (2022)	25,915
Total Special Revenue Bonds		$178,370		$15,172		$145,496
Middle Creek Dam Project (7)		$ 2,990	8.125	$ 34	124 (2034)	$ 3,099
Treasure State Endowment (8)		4,134	5.85	1,490	778 (2001)	2,268
Tongue River Dam Project (12)		11,020	-	-	-	11,020
Dept. of Justice INTERCAP Loan (11)		500	4.75	50	50 (2007)	400
Dept. Of Environmental Quality INTERCAP Loan (11)		1,212	4.85	104	75 (2008)	1,065
Total Notes Payable		$ 19,856		$ 1,678		$ 17,852
Total Special Revenue Debt						$163,348

(1) All Water Development Program Bonds and the Renewable Resource Development Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. Series 1988, 1989B, 1991A and 1993C bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
(2) Bonds issued for financing the design, construction and installation of energy conservation projects at various State buildings.
(3) Bonds sold to Farmers Home Administration.
(4) Issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes and project revenues.
(5) First payment of $795,000 is due in 2003.
(6) Bonds were sold to the Montana Board of Investments.
(7) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes $262,696 of interest owed.
(8) Board of Investments Treasure State Endowment loan from the Coal Tax Trust Fund to the State of Montana Department of Commerce.
(9) Montana Health Facility Authority Loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.
(10) Provide matching funds to enable the State to obtain capitalization grants from the U.S. Environmental Protection Agency for water system development loans to state political subdivisions.
(11) Montana Board of Investments loans to Departments from the INTERCAP loan program.
(12) Northern Cheyenne Tribe loan to the Montana Dept. of Natural Resources & Conservation (DNRC). The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
(13) Year of Maturity refers to fiscal year.

Board of Regents Issues Higher Education Units - Component Unit	Series	Amount Issued	Interest Range (%)	Principal Payments FY 2000	Principal Payments In Year of Maturity	Balance June 30, 1999
University of Montana-Missoula (U of M)	1993A/1995B 1995C/1996D 1998E	$103,253	3.8-6.9	$3,018	$ 540 (2021)	$ 93,089
Montana State University-Bozeman (MSU)	1987A/1993A 1996D/1996B 1998E/1998F	87,677	3.85-8.0	2,700	5,590 (2022)	80,112
Montana Tech of The U of M	1995C/1996D 1998E	14,717	3.9-5.75	570	120 (2020)	13,557
MSU - Billings	1996D/1998F	18,955	3.85-5.625	540	1,070 (2026)	17,710
MSU - Northern	1994C/1998F	3,450	3.85-6.0	170	100 (2015)	2,945
Western Montana College of The U of M (WMC)	1993A/1995B/ 1995C/1996D/ 1998E	7,762	3.8-6.9	260	15 (2020)	7,370
Helena College of Technology of The University of Montana (HCT)	1995B/1995C	767	4.2-6.4	43	16 (2018)	623
		$236,581		$7,301		$215,406
Add: Unamortized Premium						20

Board of Regents Issues Higher Education Units - Component Unit	Series	Amount Issued	Interest Range (%)	Principal Payments FY 2000	In Year of Maturity	Balance June 30, 1999
Less: Unamortized Discount						(2,181)
Total Higher Education Bonded Debt						$213,245
Higher Ed Nonbonded Debt						
U of M - Missoula, Bookstore Note		$ 500	Variable	$ -	$ 500 (2005)	$ 500
U of M - Missoula, INTERCAP Program Note		983	Variable	157	11 (2010)	810
U of M - First Interstate Mortgage		281	8.5	7	28 (2017)	269
MSU - Bozeman, Fiber Note		746	5.9	159	98 (2001)	256
MSU - Bozeman, INTERCAP Program Note		650	Variable	44	9 (2010)	650
MSU - Bozeman, Athletics Dept		78	5.48	16	17(2001)	33
MSU - Bozeman, Information Tech Center		54	5.31-5.63	19	5(2002)	28
MSU - Bozeman, Media & Theater Arts		44	5.63	9	10(2002)	28
MSU - Bozeman, Renne Library		245	4.95-5.28	58	33(2003)	185
MSU - Bozeman, Printing		63	6.18	22	22(2000)	22
MSU - Bozeman, Physics Dept		22	4.95	7	8(2001)	15
MSU - Bozeman, University Relations		4	4.95	1	1(2001)	2
MSU - Billings, INTERCAP Program Note		251	Variable	21	16 (2009)	247
MSU - Billings, Athletic Note		20	8.7	4	6 (2003)	20
MSU - Northern, INTERCAP Program Note		1,578	Variable	216	28 (2006)	1,166
MSU - Northern, Athletic Van Note		13	6.5	2	2 (2005)	13
MSU - Northern, Voice Mail Note		49	6.5	-	18 (2003)	49
MSU - Northern, Motorcycle Program*		44	6.5	44	44 (2000)	44
WMC - UM, INTERCAP Program Note		59	Variable	8	8 (2000)	8
WMC - UM, Mortgages Payable		70	6.5	4	6 (2009)	53
WMC - UM, Kurtz Property Payable		105	6.45	3	61 (2009)	98
MSU - College of Technology, Great Falls, Note		100	5.38	21	22 (2001)	43
Total Higher Education Nonbonded Debt		$ 5,959		$ 822		$ 4,539
TOTAL HIGHER EDUCATION FUNDS						$217,784

* Transferred from Commissioner of Higher Education

Debt service requirements (principal and interest) for long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds are as follows (in thousands):

Fiscal Year Ending June 30	General Obligation Debt	Special Revenue Bonds	Higher Ed Bonded Debt	Non-Bonded Debt	Total Requirements
2000	$ 22,119	$ 22,722	$ 17,514	$ 3,048	$ 65,403
2001	22,166	22,685	17,997	2,016	64,864
2002	21,908	22,661	17,997	984	63,550
2003	21,381	22,856	18,013	957	63,207
2004	20,153	13,043	18,107	1,097	52,400
2005+	177,342	105,104	264,986	14,775	562,207
Totals	$ 285,069	$209,071	$354,614	$22,877	$ 871,631

A summary of changes in long-term liabilities payable reported in the General Long-Term Obligations Account Group for the fiscal year ending June 30, 1999, is as follows (in thousands):

	Balance July 1, 1998	Additions(1)	Reductions	Balance June 30, 1999
Early Retirement Benefits	$ 388	$ -	$ 157	$ 231
Arbitrage Rebate Tax	155	800	148	807
General Obligation Debt	$ 187,005	$ 21,090	$ 11,075	$ 197,020
Special Revenue Debt	185,045	2,629	24,326	163,348
Totals	$ 372,593	$ 24,519	$ 35,706	$ 361,406

(1) Loan and Bond Proceed amounts recorded in the financial statements for General Obligation and Special Revenue Debt include the effects of bond discounts and premiums. The additions in long-term debt include new issues of bonds and loans with a face value of $23,719,446 which were issued at par.

D. **Early Retirement Benefits Note** - The 1993 Montana State Legislature granted an early retirement incentive. The incentive consisted of an additional three years of employer and employee contributions paid by the employer agency

to the State of Montana Public Employees' Retirement System. The payments may be made over a period of time not to exceed ten years at an interest rate of 8%. Debt Service requirements are as follows (in thousands):

	Principal Payments FY 2000	Principal Payments In Year of Maturity	Balance June 30, 1999
Primary Government:			
General Obligation Debt	$ 41	$ 55	$ 231
Component Unit:			
Higher Education Units	12	15	58
TOTAL	$ 53	$ 70	$ 289

E. Refunded Bonds

In prior years, the State of Montana and the Board of Regents of Higher Education have issued general obligation and revenue refunding bonds, the proceeds of which were used to defease certain bond issues already outstanding. The proceeds of the refunding issues were placed in escrow accounts and invested in U.S. Treasury Obligations that, together with interest earned thereon, will be sufficient for future payment of principal and interest on the refunded issues. Accordingly, the debt is considered defeased for financial reporting purposes and the liability for the defeased bonds is not included in the financial statements. At June 30, 1999, the in-substance defeased bonds outstanding are as follows (in thousands):

General Obligation	$ 11,560
Higher Education Revenue	37,014
Total	$ 48,574

F. Enterprise Funds

(1) Economic Development & Municipal Finance Consolidation Act Bonds (EDB) - This program is directed by the nine-member Board of Investments which is attached to the Department of Commerce for administrative purposes. This program assists Montana's small businesses and local governments in obtaining long-term, fixed rate financing through private Montana lending institutions. Outstanding obligations are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments FY 2000	Principal Payments In Year of Maturity	Balance June 30, 1999
Municipal Finance Consolidation Act Bonds (Irrigation Program) (a)	1988	4,976	6.60-7.75	490	130 (2014)	3,405
Economic Development Bonds (Conservation Reserve Enhancement Program) (b)	1991A-B	7,380	10.0-11.2	285	285 (2000)	285
Municipal Finance Consolidation Act Bonds (School District Pooled Refunding Program) (c)	1991	6,234	4.75-6.5	437	294 (2005)	1,984
TOTAL BONDS PAYABLE		$18,590		$ 1,212		$ 5,674
Conservation Reserve Enhancement Program (CRP Notes) (b)		11,430	6.90-9.92	1,391	250 (2009)	11,430
TOTAL BONDS/NOTES PAYABLE		$30,020		$ 2,603		$17,104

(a) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment which is a lien against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The indenture does not permit the issuance of additional bonds.

(b) These bonds and notes were issued for the purpose of providing funds for the Board of Investments, State of Montana, to make loans to participating farmers and ranchers under its Conservation Reserve Enhancement Program. The Series 1991 Bonds are not in any way a debt or liability of the State of Montana, and neither the full faith and credit, nor the taxing power of the State of Montana is pledged to the payment of the principal of or interest on the Series 1991 Bonds. However, the 1991 Bonds are limited obligations of the Board of Investments. The Bond Anticipation Notes which matured on November 15, 1992, were reissued to correspond with maturities per the underlying loans. On November 15, 1994, eleven BAN's were reissued to comply with statutory requirements limiting the maturity of notes to five years from issuance date. The outstanding BANS as of November 15, 1996

were reissued as loans to comply with statutory requirements. The board now issues CRP bonds for the duration of the CRP contract purchased.

(c) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of participating Montana School Districts. The School District Refunding Bonds and the interest thereon are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments, and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal of or interest on the bonds.

Debt service requirements (principal & interest) for EDB are as follows (in thousands):

2000	2001	2002	2003	2004	2005+	Totals
$ 3,809	$3,283	$2,995	$2,826	$2,591	$7,739	$23,243

(2) **Internal Service Bonds/Notes Payable** - State agencies may obtain long-term financing for Internal Service Funds through the Board of Investments INTERCAP loan program. Outstanding obligations at June 30, 1999 are as follows (in thousands):

Department	Amount Issued	Interest Rate (%)	Principal Payments FY 2000	Principal Payments In Year of Maturity	Balance June 30, 1999
Department of Transportation - Motor Pool	$ 6,663	4.75-5.15	$ 1,334	100(2004)	$ 4,709
TOTAL BONDS/NOTES PAYABLE	$ 6,663		$ 1,334		$ 4,709

Debt service requirements (principal & interest) for Internal Service Funds are as follows (in thousands):

2000	2001	2002	2003	2004	2005+	Total
$1,352	$1,343	$1,352	$ 581	$ 100	$ -	$4,728

(3) **Board of Housing (BOH) (Housing Authority) - Component Unit - Revenue Bonds** - The Montana Board of Housing is authorized to have an aggregate of $975 million of housing mortgage bonds outstanding. The bonds are payable from mortgage loan repayments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. Statutory provisions exist wherein the Governor shall include in the executive budget submitted to the legislature the sum required to fund possible future deficiencies in required reserves; however, the legislature is not legally required to appropriate funding for such deficiencies. None of the outstanding bonds were issued under these provisions. BOH Revenue Bonds (net) outstanding at June 30, 1999, are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments FY 2000	Principal Payments In Year of Maturity	Balance June 30, 1999
Single Family I	1997A	$ 91,360	4.0-6.15	$ 150	$ 955 (2038)	$ 87,940
Subtotal		$ 91,360		$ 150		$ 87,940
Single Family II	1983C	$114,998	5.75-10.7	$ -	$1,520 (2010)	$ 13,391
	1984A	75,002	7.0-10.375	-	425 (2010)	621
	1985A	40,000	5.5-9.75	1,292	4,525 (2016)	7,205
	1985B	74,997	5.7-9.75	-	295 (2011)	2,670
	1992RA	22,520	5.65-6.5	-	10 (2033)	22,520
	1994A	25,725	3.1-6.1	1,550	500 (2025)	15,735
	1994B	40,815	3.8-6.9	1,380	315 (2025)	15,340
	1994C	20,000	4.5-6.8	180	195 (2027)	6,295
	1995A	33,580	4.75-6.55	390	760 (2027)	22,560
	1995B	88,000	4.2-6.4	665	1,460 (2036)	85,885
	1996A	65,000	4.7-6.375	825	2,135 (2029)	59,465
	1998A	51,780	4.0-5.45	-	290(2031)	51,175
	1998B	65,000	4.35-5.35	-	360(2031)	64,915
Subtotal		$717,417		$ 6,282		$367,777

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments FY 2000	Principal Payments In Year of Maturity	Balance June 30, 1999
Single Family III	1988B1-B2	$ 25,000	6.0-8.9	$ 115	$ 125 (2020)	$ 3,545
Single Family IV	1989A1-A2	25,000	7.0-9.2	135	210 (2020)	4,750
Single Family V	1990A1-A2	25,000	6.2-8.525	165	370 (2021)	6,035
Single Family VI	1990B1-B2	25,000	6.3-8.5	185	400 (2022)	6,680
Single Family VII	1990C1-C2	25,000	6.55-8.95	165	365 (2022)	5,785
Single Family VIII	1991A1-A2	25,000	5.2-8.275	265	630 (2022)	8,835
Single Family IX	1991B1-B2	25,000	5.5-8.4	275	655 (2023)	9,785
Single Family X	1992A1-A2	25,000	4.45-7.85	320	745 (2023)	12,410
Multifamily	1978A	4,865	6.125	80	645 (2020)	4,030
	1992A	9,725	2.95-6.55	190	50 (2024)	8,790
	1996A	890	4.10-6.15	15	60 (2027)	860
	1998A	1,625	3.5-4.7	60	40(2030)	1,625
Subtotal		$ 17,105		$ 345		$ 15,305
TOTAL		$1,025,882		$ 8,402		$528,847
Add: Deferred amount on refunding						608
Add: Unamortized bond premiums						45
TOTAL BOH BONDS PAYABLE (net)						$529,500

Debt service requirements (principal & interest) for all BOH programs are as follows (in thousands):

2000	2001	2002	2003	2004	2005+	Total
$38,902	$40,175	$40,818	$42,468	$43,915	$928,992	$1,135,270

G. No-Commitment Debt - Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

(1) Montana Board of Investments (BOI) - The BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. The industrial revenue bonds issued by BOI do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1999, outstanding industrial revenue bonds are as follows (in thousands):

Project	Date of Issue	Amount Issued	Amount Outstanding
Montana Cenex	August 1985	$ 3,925	$ 3,925
Colstrip	October 1989	60,800	60,800
Yellowstone Energy (BGI)	July 1993	118,345	118,245
Total		$183,070	$182,970

(2) Beginning Farm Loan Program - The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 1999, is as follows:

Jorgensen Project - issued $81,600; outstanding $17,519.

(3) Montana Health Facility Authority (MHFA) - Component Unit - The MHFA is authorized to issue bonds and notes to finance projects for qualifying health institutions. The following obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1999, the MHFA had issued bonds and notes as follows (in thousands):

Project	Date of Issue	Amount Issued	Amount Outstanding
West Mont Home Health Services	June 1985	$ 440	$ 90
MHFA 1985 Pooled Loan Projects	December 1985	66,900	35,900
Community Provider Pooled Loans	October 1988	1,461	460
Community Provider Pooled Loan	July 1990	5,858	4,190
Deaconess Medical Center (Series A)	February 1991	18,000	18,000
Deaconess Medical Center (Series B)	February 1991	18,000	18,000
Sisters of Providence	May 1991	51,535	40,580

Project	Date of Issue	Amount Issued	Amount Outstanding
Deaconess Medical Center	September 1991	32,650	27,050
Deaconess Medical Center	September 1991	7,000	1,340
Community Provider Pooled Loans	September 1991	3,944	3,017
Hospital Pooled Loans	August 1992	4,645	2,375
Richland Opportunities	January 1993	200	163
Bozeman Deaconess Foundation	June 1993	14,900	10,220
Sisters of Charity	January 1994	50,915	41,735
Deaconess-Billings Clinic	January 1994	58,870	58,870
Residential Support Services	March 1994	50	39
Community Memorial Hospital (1)	October 1994	570	125
St. John's Retirement Home	October 1994	2,000	1,985
North Valley Hospital (Series C) (1)	October 1994	695	150
North Valley Hospital (Series D) (1)	October 1994	1,310	900
Northern MT(1)	October 1995	5,645	4,885
Northern MT	November 1995	6,090	5,705
Livingston Hospital	May 1995	559	107
Toole County Hospital	August 1996	1,635	1,475
Marcus Daily Memorial Hospital	August 1996	1,860	1,680
Glendive Community Hospital	August 1996	1,590	1,435
Mission Ridge	August 1996	17,835	17,835
Community Medical Center-Missoula	August 1996	20,730	19,745
Benefis	September 1996	16,680	13,410
St. Peter's Hospital	January 1997	19,875	17,215
Regional services(Beartooth Industries)	September 1997	260	251
Alternatives, Inc.	November 1997	2,925	2,840
Big Horn	February 1998	1,425	1,380
Lewis & Clark County(Cooney)	February 1998	1,730	1,675
North Valley	February 1998	1,890	1,745
Lewis & Clark County (Clinic)	February 1998	860	830
Sisters of Charity	March 1998	137,800	137,800
EMC MHC	May 1998	44	22
BSW, Inc.	May 1998	36	29
Opportunity Resources, Inc.	June 1998	400	388
Kalispell Regional Hospital	August 1998	19,630	19,630
Bozeman Deaconess	August 1998	13,500	13,075
Missoula Correctional (Prerelease)	October 1998	5,580	5,580
Great Falls Prerelease	October 1998	1,300	1,300
Community Medical 99 (Missoula)	January 1999	2,300	2,203
Total		$622,122	$537,429

(1) The Board of Investments (BOI) and the MHFA have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the MHFA funds sufficient to ensure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund, a Trust Fund Bond Pool participant, or any other legally available funds administered by the BOI.

13. INTERFUND TRANSACTIONS

During the course of normal operations, the State has numerous transactions between funds to finance operations, provide services, construct assets, service debt, etc. Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. To the extent that certain transactions between funds are not paid or received as of June 30, 1999, interfund receivables/payables (Due From/To Other Funds) are recorded. The schedule below presents all interfund balances outstanding at June 30, 1999, (in thousands) and interfund activity for the fiscal year then ended:

Within Primary Government and Component Units	Interfund Loans/Advances Receivable	Interfund Loans/Advances Payable	Due From Other Funds	Due To Other Funds	Operating Transfers In	Operating Transfers Out	Residual Equity Transfers In	Residual Equity Transfers Out
General	$ 33,285	$ -	$ 37,937	$ 19,599	$ 87,600	$ 10,022	$ -	$ -
Special Revenue								
State	61,902	8,619	18,466	14,788	34,330	30,456	70	-
Federal	20	85,847	2,809	12,200	1,800	21,142	-	2
Debt Service								
Coal Tax Bonds	-	-	-	6	662	623	-	-
Long-Range Building Program	-	-	171	525	8,533	583	102	-
Water Development	-	-	-	756	826	942	-	-
Highway Revenue Bonds	-	-	-	-	13,592	-	-	-
Health Care Debt Service	-	-	59	-	991	-	-	-

Within Primary Government and Component Units	Interfund Loans/Advances Receivable	Interfund Loans/Advances Payable	Due From Other Funds	Due To Other Funds	Operating Transfers In	Operating Transfers Out	Residual Equity Transfers In	Residual Equity Transfers Out
Information Technology Bonds	-	-	-	-	4,694	-	-	-
Energy Bonds	-	-	-	99	-	99	-	-
Capital Projects								
Long-Range Building Program	-	135	343	724	9,194	3,374	-	172
Fed/Priv Construction Grants	-	-	22	-	-	-	-	-
Capital Land Grant	-	-	13	110	493	451	-	-
Information Technology Project	-	83	303	403	-	-	-	-
Enterprise								
Economic Development Bonds	-	4	-	11	-	-	-	-
Liquor Warehouse	-	-	22	7,107	-	18,872	-	-
Hail Insurance	-	-	2	14	-	38	-	-
State Lottery	-	-	4	2,923	-	6,780	-	-
Prison Ranch	165	-	83	117	-	43	-	-
Prison Industries	-	165	230	78	-	10	-	-
Uninsured Employers	-	-	14	43	-	-	-	-
Subsequent Injury	-	-	-	5	-	-	-	-
Montana Career Info. Systems	-	-	2	8	-	4	-	-
Sec. of State Business Services	-	-	123	98	-	-	-	-
Historical Soc. Publications	-	-	14	54	55	-	-	-
Surplus Property	-	-	20	198	-	-	-	-
West Yellowstone Airport	-	-	-	2	18	-	-	-
Local Govt. Audits	-	-	-	13	-	-	-	-
Def. Comp. Administration	-	-	-	1	-	-	-	-
Flexible Spending Administration	-	75	3	-	-	-	-	-
Internal Service								
Highway Equipment	-	-	729	181	-	-	-	-
Employees' Group Benefits	-	-	3	26	-	-	-	-
ISD	-	-	1,921	304	-	-	-	-
MUS Group Insurance	-	-	5	8	-	-	-	-
Administration Insurance	-	-	164	268	126	239	-	-
FWP Equipment	-	-	311	2	189	-	-	-
Motor Pool	-	-	378	8	-	-	-	-
Administration Supply	-	-	160	15	-	-	-	-
Publications & Graphics	-	-	250	46	-	-	-	-
Buildings & Grounds	-	-	372	134	59	91	-	-
Labor Central Services	-	-	523	194	-	-	-	-
Commerce Central Services	-	-	171	104	-	-	-	-
DEQ Indirect Cost Pool	-	-	371	57	-	-	-	-
FWP Warehouse Inventory	-	-	9	-	-	-	-	-
Mail & Messenger	-	77	151	14	-	-	-	-
Payroll Processing	-	-	2	385	-	376	-	-
Warrant Processing	-	-	67	195	-	125	-	-
Investment Division	-	-	37	78	-	-	-	-
Aircraft Operation	-	-	47	12	343	-	-	-
Justice Legal	-	101	140	169	-	-	-	-
OPI Central Services	-	-	76	112	-	-	-	-
Personnel Training	-	10	14	8	-	-	-	-
Records Management	-	-	70	129	-	-	-	-
FWP Office Supply	-	-	-	2	-	-	-	-
Debt Collections	-	-	14	5	-	-	-	-
Administration Legal	-	2	2	1	-	-	-	-
Local Govt. Administration	-	-	6	6	-	-	-	-
Natural Gas Procurement	-	-	-	1	-	-	-	-
Administration DP Unit	-	-	6	5	-	-	-	-
Expendable Trusts								
Unemployment Insurance	-	20	204	1	-	-	-	-
Rural Development	-	-	-	3	-	-	-	-
Escheated Property	-	-	-	2	-	278	-	-
Historical Society General	-	-	-	2	-	-	-	-
Wildlife Mitigation	-	5	-	7	-	54	-	-
Employees Deferred Comp.	-	-	15	-	-	-	-	-
Nonexpendable Trusts								
Coal Tax Trust	-	34	23	11,791	-	24,323	-	-
Land Grants	-	-	808	7,297	26	43,103	-	-
Resource Indemnity	-	-	-	2,755	-	1,948	-	-
Parks Trust	-	-	-	185	-	1,171	-	-
Cultural Trust	-	-	21	101	-	295	-	-
Real Property	-	-	27	87	-	553	-	-
Noxious Weed Management	-	-	1	389	-	356	-	-

Within Primary Government and Component Units	Interfund Loans/Advances Receivable	Interfund Loans/Advances Payable	Due From Other Funds	Due To Other Funds	Operating Transfers In	Operating Transfers Out	Residual Equity Transfers In	Residual Equity Transfers Out
Thomas Teakle Trust	-	-	-	-	-	2	-	-
Agency								
Investment Pool	-	-	-	28	-	-	-	-
Performance Deposits	30	-	-	951	-	-	-	-
Central Payroll	-	-	14,432	169	-	-	-	-
Custodial Accounts	-	-	5	167	-	-	-	-
Unissued Warrants	-	-	97	2,427	-	-	-	-
Child Support Collections	-	225	-	1	-	-	-	-
Intergovernmental	-	-	-	617	-	-	-	-
Uncleared Collections	-	-	14	379	-	-	-	-
Debt Collection	-	-	19	25	-	-	-	-
COMPONENT UNITS								
Enterprise Funds								
Housing Authority	-	-	-	2	-	-	-	-
Health Facilities Authority	-	-	-	1	-	-	-	-
State Comp. Insurance - New	-	-	293	1	-	-	-	-
State Comp. Insurance - Old	-	-	1	282	-	-	-	-
Pension Trusts								
Teachers Retirement	-	-	1,164	1	-	-	-	-
PERS	70	-	586	205	-	-	-	-
Municipal Police	-	70	1	33	-	-	-	-
Firefighters Unified	-	-	5,076	26	-	-	-	-
Sheriffs	-	-	10	22	-	-	-	-
Highway Patrol	-	-	86	13	-	-	-	-
Judges	-	-	41	3	-	-	-	-
Game Wardens	-	-	67	14	-	-	-	-
Volunteer Firefighters	-	-	1	24	-	-	-	-
Higher Education								
Current Funds								
General Operating	480	5	5,293	7,878	956	1,744	55	-
Designated	3,109	4	9,425	2,611	1,199	2,411	23	-
Auxiliary	5	212	604	1,382	576	11,950	-	9
Restricted	-	3,485	439	7,103	2,101	196	-	9
Fiduciary								
Student Loans	-	-	119	158	14	19	-	-
Endowments	-	-	2	86	498	551	-	-
Agency	-	-	5,211	2,285	-	-	-	-
Plant								
Unexpended	36	-	5,596	5,101	3,546	10,537	6	-
Renewal & Replacement	52	105	1,220	1,063	11,231	1,811	-	63
Retirement of Indebtedness	217	-	2,778	2,289	15,537	3,617	-	1
Investment in Plant	-	88	-	-	-	-	-	-
Totals	$ 99,371	$ 99,371	$120,318	$120,318	$199,189	$199,189	$ 256	$ 256

Between Primary Govt. and Component Units	Due From Comp. Units	Due To Primary Govt.	Due To Comp. Units	Due From Primary Govt.	Transfer From Comp. Units	Transfer To Primary Govt.	Transfer To Comp. Units	Transfer From Primary Govt.
General	$10,394	$ -	$ 7,123	$ -	$10,000	$ -	$104,135	$ -
Special Revenue								
State	297	-	1,495	-	-	-	14,728	-
Federal	20	-	737	-	-	-	-	-
Capital Projects								
Long Range Building	108	-	45	-	-	-	-	-
Enterprise								
State Lottery	-	-	1	-	-	-	45	-
Prison Industries	62	-	-	-	-	-	-	-
Secretary of State Bus. Srv.	1	-	-	-	-	-	-	-
Surplus Property	-	-	4	-	-	-	-	-
Flex Spending Admin.	65	-	-	-	-	-	-	-

Between Primary Govt. and Component Units	Due From Comp. Units	Due To Primary Govt.	Due To Comp. Units	Due From Primary Govt.	Transfer From Comp. Units	Transfer To Primary Govt.	Transfer To Comp. Units	Transfer From Primary Govt.
Internal Service								
Employees' Grp. Ben.	-	-	1	-	-	-	-	-
ISD	244	-	41	-	-	-	-	-
MUS Group Insurance	1,655	-	6	-	-	-	-	-
FWP Equipment	2	-	-	-	-	-	-	-
Administration Supply	33	-	1	-	-	-	-	-
Publications & Graphics	3	-	-	-	-	-	-	-
Labor Central Services	7	-	1	-	-	-	-	-
Commerce Central Services	10	-	1	-	-	-	-	-
DEQ Indirect Cost Pool	4	-	-	-	-	-	-	-
Mail & Messenger	1	-	-	-	-	-	-	-
Warrant Processing	21	-	-	-	-	-	-	-
Investment Division	86	-	-	-	-	-	-	-
Justice Legal	2	-	-	-	-	-	-	-
OPI Central Services	2	-	-	-	-	-	-	-
Records Management	2	-	-	-	-	-	-	-
Expendable Trusts								
Wildlife Mitigation	-	-	13	-	-	-	-	-
Employees Deferred Comp.	62	-	-	-	-	-	-	-
Nonexpendable Trusts								
Land Grants	-	-	369	-	-	-	2,093	-
Agency								
Central Payroll	364	-	3,326	-	-	-	-	-
Child Support Collections	9	-	-	-	-	-	-	-
Unclaimed Property	1	-	-	-	-	-	-	-
Intergovernmental	-	-	6	-	-	-	-	-
Uncleared Collections	6	-	9	-	-	-	-	-
Debt Collection	-	-	5	-	-	-	-	-
COMPONENT UNITS								
Enterprise Funds								
Housing Authority	-	35	-	1	-	-	-	-
Health Facilities Authority	-	4	-	-	-	-	-	-
State Compensation Ins. - New	-	10,791	-	1,504	-	10,000	-	-
State Compensation Ins. - Old	-	7	-	429	-	-	-	-
Pension Trusts								
Teachers Retirement	-	47	-	75	-	-	-	-
PERS	-	134	-	1,872	-	-	-	-
Municipal Police	-	-	-	5,576	-	-	-	-
Highway Patrol	-	-	-	167	-	-	-	-
Volunteer Firefighters	-	-	-	944	-	-	-	-
Higher Education								
Current Funds								
General Operating	-	357	-	198	-	-	-	118,829
Designated	-	154	-	150	-	-	-	-
Auxiliary	-	42	-	59	-	-	-	262
Restricted	-	27	-	1,867	-	-	-	45
Fiduciary								
Student Loans	-	-	-	2	-	-	-	-
Agency	-	1,628	-	23	-	-	-	-
Plant								
Unexpended	-	190	-	143	-	-	-	807
Renewal and Replacement	-	45	-	1	-	-	-	73
Retirement of Debt	-	-	-	173	-	-	-	985
Totals	$13,461	$13,461	$13,184	$13,184	$10,000	$ 10,000	$121,001	$121,001

14. FUND DEFICITS

The following funds have a deficit fund balance/retained earnings found on the operating statements for June 30, 1999, (in thousands):

Primary Government	Deficit
Enterprise Fund	
West Yellowstone Airport	$ (641)
Department of Agriculture	(177)
Subsequent Injury	(129)

Internal Service Fund	
Administration Insurance	(10,579)
Justice Legal	(63)
Personnel Training	(11)
Administration - Legal	(16)
Local Government Admin	(36)
Total Fund Deficits - Primary Government	$ (11,652)
Component Units	
Proprietary Fund Type	
State Comp. Ins. (Old Fund)	$ (140,091)
Higher Education Funds	
General Operating Subfund	(23,986)
Total Fund Deficits - Component Units	$ (164,077)

The deficit retained earnings in the Administration Insurance Fund, Subsequent Injury and the State Compensation Insurance-Old Fund are due to recording the expense for estimated claims including claims incurred but not reported. Refer to Note 9 for further discussion of these funds. The deficit fund balance in the General Operating Subfund is due to the expense associated with the recording of compensated absences.

15. RESERVED FUND BALANCES FOR TRUSTS

The Special Revenue fund balance reserved for trusts is for the Department of Environmental Quality federal Office of Surface Mining Trust Fund of $6,551,852.

The Nonexpendable Coal Tax Trust Fund reserved for trust principal is comprised of the following: Permanent Coal Tax Trust $553,968,153, Treasure State Endowment Fund $67,362,284, and the School Bond Contingency Loan Fund $2,177,964. All other nonexpendable funds reserved for trust principal are $516,977,010.

16. SEGMENT INFORMATION

Selected financial information concerning all enterprise operations for the fiscal year ended June 30, 1999, is as follows (in thousands):

	Economic Development Bonds	Liquor Warehouse	Hail Insurance	State Lottery	Other Enterprise*	Total Enterprise
Operating Revenues:						
Charges for Services	$ 10	$ 38,782	$ -	$ 30,073	$ 8,712	$ 77,577
Investment Earnings	597	-	305	300	185	1,387
Financing Income	3,320	-	-	-	-	3,320
Contributions/Premiums	-	-	2,359	-	5,051	7,410
Grants/Contracts/Donations					28	28
Taxes	-	11,029	-	-	-	11,029
Other Revenues	-	95	118	13	2,099	2,325
Operating Expenses:						
Depreciation	2	48	-	191	301	542
Amortization	-	-	-	41	9	50
Other	3,105	30,998	2,030	22,978	16,829	75,940
Operating Income (Loss)	820	18,860	752	7,176	(1,064)	26,544
Nonoperating Revenues (Expenses)	(1)	-	-	(350)	(38)	(389)
Oper. Trans. In (Out)	-	(18,872)	(38)	(6,825)	16	(25,719)
Net Income (Loss)	$ 819	$ (12)	$ 714	$ 1	$ (1,086)	$ 436
Current Assets	$ 9,843	$ 12,424	$ 5,502	$ 5,591	$ 17,986	$ 51,346
Current Liabilities	(1,400)	(11,169)	(1,788)	(7,134)	(1,353)	(22,844)
Net Working Capital	$ 8,443	$ 1,255	$ 3,714	$ (1,543)	$ 16,633	$ 28,502
Total Assets	$ 70,499	$ 13,387	$ 10,071	$ 12,736	$ 23,926	$130,619
Total Liabilities	66,620	11,242	3,621	12,498	4,564	98,545
Fund Equity	$ 3,879	$ 2,145	$ 6,450	$ 238	$ 19,362	$ 32,074
Long-Term Obligations	$ 65,220	$ 73	$ 1,833	$ 5,364	$ 3,211	$ 75,701
Acquisition of Fixed Assets	$ -	$ 96	$ -	$ 3,875	$ 115	$ 4,086
Disposal of Fixed Assets	$ 12	$ 113	$ -	$ 10	$ 17	$ 152

1. The Economic Development Bond Program, administered by the Board of Investments, assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

2. The Liquor Division of the Department of Revenue administers the State liquor operations (Liquor Warehouse). This fund accounts for liquor licensing activities and the sale and distribution of alcoholic beverages.

3. The Hail Insurance Fund provides benefit payments to producers for crop acreage insured and accounts for premium assessments paid (See Note 9).

4. The State Lottery accounts for the operations of Montana's lottery which began in June 1987. Included in Other Assets, as presented on the Balance Sheet, is $2,014,420 which is not a current asset.

* Other Enterprise is composed of the following funds (listed by administering agency):

Department of Agriculture
Department of Agriculture

Secretary of State
Business Services

Department of Corrections
Prison Ranch\ Industries
Women's Prison Industries
Swan River Vocational Training

Department of Commerce
Local Government Audits

Montana Historical Society
Historical Society Publications

Department of Administration
Surplus Property
Flexible Spending
Deferred Compensation Admin.

Department of Transportation
West Yellowstone Airport

Department of Labor and Industry
Montana Career Info. System
Subsequent Injury
Uninsured Employers

Judiciary
Judiciary Law Library

Commissioner of Higher Education
Flexible Spending

17. CONTRIBUTED CAPITAL

During fiscal year 1999, contributed capital changed by the following amounts (in thousands):

	PRIMARY GOVERNMENT		COMPONENT UNITS
	Enterprise Fund	Internal Service Fund	Proprietary Fund Type
Beginning Balance - July 1, 1998	$ 4,420	$ 7,218	$ 154,468
Additions:			
Contributed Capital Transfers-in	838	127	-
Deletions:			
Contributed Capital Transfers-out	(845)	(10)	-
Ending Balance - June 30, 1999	$ 4,413	$ 7,335	$ 154,468

18. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Approximately 45.66% of the Regents' outstanding loan volume or $285,276,129 is held by MHESAC. Lewis & Clark County owns the building which houses the staff of the Board of Regents and the Office of the Commissioner of Higher Education (OCHE). Upon satisfaction of the financing obligations, MHESAC has the option to purchase the building. OCHE pays MHESAC for its share of various costs such as personnel costs for employees of MHESAC who perform services that are of direct benefit to the State; equipment leases; computer maintenance costs; utilities and other shared operating expenses. The total amount of these expenses for fiscal year 1999 amounted to $529,204. MHESAC employees are allowed to participate in the University System group insurance plan; MHESAC also reimburses OCHE for services such as telephones, postage and computer services. During fiscal year 1999 MHESAC paid OCHE a total of $509,819.

There is a foundation affiliated with each university and college unit which solicits contributions and manages those funds for the benefit of that unit. Although each foundation is a separate legal entity, each unit exercises significant influence over its affiliated foundation. The units generally provide the foundations with office space, some staff and related office expenses and an annually contracted fee. The units paid their foundations approximately $605,695 in fiscal year 1999. In return the universities received from their foundations approximately $17,250,861 during fiscal year 1999 for scholarships and academic/institutional support. In addition to support from their affiliated foundations, the University of Montana-Missoula, Montana State University-Billings and Montana State University-Bozeman received a total of $2,069,778 from their related athletic associations/booster organizations and affiliated museums and public broadcasting radio stations.

The Department of Administration, Personnel Division, has a staff member that serves as Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this Association $1,000 per year to maintain its membership. This staff member also serves as Director of Community Health Options which is a health purchasing cooperative whose purpose is to consolidate demand for health coverage to encourage more cost-effective health plans, negotiate more favorable rates and create economies of scale by combining administration of health care plans.

19. CONTINGENCIES

A. Litigation - The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

The State of Montana is involved in a lawsuit with the potential for substantial recovery of monetary relief against private parties. State of Montana v. Atlantic Richfield Co., No CV-83-317-H-PHG(D.Mont.), is a case where natural resource damage claims have been asserted under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 with respect to environmental injury to Clark Fork River Basin. The State and Atlantic Richfield recently settled a portion of the case for $213 million, but unresolved is a claim by the State for $180 million. Atlantic Richfield has filed a counterclaim against the State, the amount of which is unspecified and therefore could reduce or exceed the State's remaining claim. The State believes it has meritorious defenses to the counterclaim. Any recovery in this litigation must be used under federal law to further reclamation and recovery efforts or to offset attorney's fees and assessment costs incurred by the State.

B. Federal Contingencies:

Federal Financial Assistance - The State receives federal financial assistance for specified purposes which are subject to review and audit in accordance with the Single Audit Act of 1996. Any disallowances resulting from these audits would become the liability of the State. There are no disallowances reported as of June 30, 1999.

USDA Commodities - In fiscal year 1999, the State distributed $7,338,857 in commodities. The value at June 30, 1999, of commodities stored in the State's warehouses is $1,699,563 for which the State is liable in the event of loss.

C. Miscellaneous Contingencies:

Commitment Fees - The Board of Investments (BOI) and the Montana Health Facility Authority (MHFA) have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the MHFA funds sufficient to ensure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 1999, is $33,581,798.

The BOI has issued INTERCAP bonds backed by commitments from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 1999, is $53,319,005.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 1999, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	Special Revenue	Debt Service	Nonexpendable Trust
Corporation	$ 4,783	$ -	$ -	$ -
Coal Severance	9,680	3,539	5,463	19,656
Oil & Gas	7,747	-	-	-
Resource Indemnity	-	530	-	450
Totals	$ 22,210	$ 4,069	$ 5,463	$ 20,106

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed 100% to the General Fund.

Loss Contingencies - Certain corporation(s) have requested refunds that are not reported on the State's financial statements as of June 30, 1999. As of June 30, 1999, $3,904,881 of General Fund corporation tax refunds were outstanding.

20. SUBSEQUENT EVENTS

On August 1, 1999, the Montana Health Facility Authority issued $11,500,000 of Health Care Facilities Revenue Bonds, Series 1999, for the Sidney Health Center.

On August 4, 1999, the Montana Board of Housing issued $60,000,000 of Single Family Bonds, 1999 Series A.

On August 15,1999, the Montana Board of Housing issued $9,860,000 of Multi-Family Mortgage Bonds, 1999 Series A under Montana Preservation Projects.

On October 21, 1999, the Montana University System issued Series F 1999 Revenue Bonds. Bond proceeds of $69.24 million will be used for the purpose of restructuring A, B and D Facilities Improvement Revenue Bonds, and for the acquisition, construction, remodeling, improvement and equipping certain facilities and properties at The University of Montana.

On July 1, 1999, the State of Montana converted to a Peoplesoft computerized Accounting System.

In July 1999, the State of Montana received approximately $151 million from the settlement with Arco. This money was distributed to the Upper Clark Fork River Basin Restoration Fund and the Streamside Tailings Unit Fund.

Year 2000 Issues

The year 2000 (Y2K) issue refers to the fact that many computer programs use only the last two digits to refer to a year. Therefore, both 1900 and 2000 would be referred to as "00". Computer programs have to be adjusted to recognize the difference between those two years or the programs will fail or create errors. Also, some programs may not be able to recognize that 2000 is a leap year. Further, Y2K could affect electronic equipment - such as environmental systems and elevators - containing computer chips that have date recognition features.

The State of Montana has been addressing Y2K issues relating to its computer systems and other electronic equipment for more than two years. Agencies have inventoried and analyzed all of their computer systems and report the status of their systems through a centralized reporting system maintained by the Information Services Division (ISD) of the Department of Administration.

ISD established the Year 2000 Project Team to assure that all ISD's systems were Y2K compliant and to encourage and facilitate state agency compliance. The main goals of the team are to promote awareness, perform compliance assessment, and to develop a compliance plan. The following stages have been identified as necessary to implement a year 2000 compliant system:

1) Awareness Stage - the establishment of a budget and project plan;

2) Assessment Stage - the process of identifying all of the systems and individual of components of the computer systems and their state of Y2K readiness;

3) Remediation Stage - the actual changes to the systems and equipment. This stage deals primarily with the technical issues of converting existing systems or changing to compliant systems; and

4) Validation/Testing Stage - the validation and testing of the changes made during the remediation processs. The development of test data and test scripts are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and retested.

ISD and other state agencies identified 710 systems, including hardware, software, firmware and application systems, that were date sensitive. The systems were categorized according to the level of disruption that could result if the system failed. This categorization resulted in 30% of the systems being considered "mission critical" or High Priority (e.g., payroll, drivers licensing, warrant writing), 30% Medium Priority (e.g., employee time sheet, budget preparation system), and 40% Low Priority (e.g., package preparation, warehouse inventory). A plan was developed for each system detailing how the problem will be addressed (repair, replace or retire the system), as well as, a target date for system compliance. The awareness and assessment stages are complete for all systems. The schedule of remediation and testing is tracked on a monthly basis by ISD. At June 30, 1999, 542 systems (76%), including 171 mission critical systems, had successfully completed the testing stage; as of October 6, 1999 623 systems including 188 mission critional systems had completed the testing stage. The remaining 168 systems, of which 56 were mission critical, are in the remediation stage.

Listed below are the mission critical systems which, as of June 30, 1999, are still in the remediation stage. The target date for completion of remediation and testing for all mission critical systems is November 1999.

High Priority Systems in Remediation Stage

Telephone Management System
Criminal History Records
Driver's License Document System
Digital Driver License System
Ground Water Well Testing
Agricultural Lab Information Management
Instant Lottery System
Lottery Internal Control System
On-Line Lottery System
Adult Correctional Information System
State Hospital Resident Accounts System
Hardrock Permit/Bonding Tracking System
Coal Mine Complaint Tracking Database
Coal Mine Inspections & Maintenance
Coal Mine Permit Tracking
Coal Mine Violation Tracking
Opencut Permit/Bonding Tracking System
Fish, Wildlife & Parks Enforcement System

Legislative Appropriation System
Revenue Estimate System
Legislative Audit Management System
Hazard Reduction Act Compliance
Legislative Budget System Legislative Vote
Systems Legislative Publications Distribution
Handicapped Children Services
Enforcement & Receipt of Child Support
Delinquent Accounts Receivable System
Electronic Media Reporting System
Montana Automated Contribution System
Revenue Control System
Confiscation/Refund System
Revenue Interface with State Mainframe
Withholding Tax SystemCigarette Quota System
Individual Income Tax System
Inheritance Tax System
Minerals Management Interface
Remittance Processing Scanner
Uniform Commercial Code Systems
State Library Operating System
Worker's Compensation Medical Payment
Worker's Compensation NCCI System
Worker's Compensation Policy
Securities Regulation System
Worker's Compensation Accounting
State Auditor's Securities System
Transportation Building Maintenance
Transportation Contract Management
Highways Maintenance Management
Transportation Stores Inventory Control

On July 1, 1999, the State of Montana implemented a new accounting, budgeting and human resource system. In fiscal year 1998, bonds were issued to purchase replacement systems or update current systems for the following:

Statewide Accounting System	$16.0 million
Statewide Budget System	.5 million
Integrated Revenue and Tax System	14.0 million
Accounts Receivable System	3.8 million
Unemployment Benefit Package	2.0 million
Montana University System	3.2 million
Corrections Computer System	1.9 million
TOTAL	$41.4 million

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that Montana is or will be year 2000 ready, that the remediation efforts will be successful in whole or in part, or that parties with whom Montana does business will be year 2000 ready.

COMPONENT UNITS

The Montana University System (MUS) has been addressing the Y2K issue for the last two years. The major administrative support systems have been or are currently being replaced or upgraded to systems that are Year 2000 compliant. These systems include Finance (purchasing, payables, receivables, and accounting), Human Resources (personnel and payroll), and Student (billing, financial aid, admissions, and registration). The MUS does not anticipate disruption of services as a result of non-compliant internal systems.

The State Fund has been addressing Y2K issues relating to its computer systems and other electronic equipment for more than two years. The State Fund established a Project Team to assure that all system are Y2K compliant. The main goals of the team are to promote awareness, perform compliance assessment and develop a compliance plan. A plan was developed for the whole system detailing how the problem would be addressed (repair, replace or retire); as well as a target date to have the system complaint. As of June 30, 1999, all four stages - awareness, assessment, remediation, and testing - were completed for all mission critical systems.

The Montana Board of Housing has performed a basic analysis of its computer hardware, software, and office equipment for Y2K compliance. The Board is currently working in the remediation stage and expects to complete the upgrade or replacement of necessary systems and equipment by September 30, 1999. The Board has nearly completed the process of surveying its trustees, loan servicers, and other third parties with which it has programmatic or financial interactions for information regarding the status of their Y2K readiness. The Board does not currently anticipate that Y2K compliance issues of partner organizations will have a material adverse effect on the Board.

The Pension Trust Funds, consisting of the Teachers' Retirement System and the Public Employees' Retirement Board, have concluded all stages of Y2K remediation and successfully completed the testing and validation stage on all mission critical systems.

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana for the fiscal year ended June 30, 1999, and have issued our report thereon dated November 18, 1999. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the general purpose financial statements. Such information has been subjected to the audit procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

James H. Gillett, CPA
Deputy Legislative Auditor

November 18, 1999

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 1999

		AMOUNT
PEACE CORPS		
08.999	Miscellaneous Non-Major Grants	10,574
	TOTAL	$10,574
DEPARTMENT OF AGRICULTURE		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	65,286
10.064	Forestry Incentives Program	3
10.156	Federal-State Marketing Improvement Program	17,005
10.156	Federal-State Marketing Improvement Program: Passed Through From *WUSATA & USLGE	57,765
10.162	Inspection Grading and Standardization	18,007
10.200	Grants for Agricultural Research, Special Research Grants	847,980
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	1,932,736
10.206	Grants for Agricultural Research-Competitive Research Grants	23,272
10.224	Fund for Rural America-Research, Education, and Extension Activities	495,543
10.441	Technical and Supervisory Assistance Grants: Passed Through From E. Oregon University	13
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	387,365
10.500	Cooperative Extension Service	3,099,343
10.501	Agricultural Telecommunications Program	41,401
10.550	Food Distribution	2,451,232
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	12,443,218
10.558	Child and Adult Care Food Program	8,657,581
10.560	State Administrative Expenses for Child Nutrition	574,471
10.564	Nutrition Education and Training Program	38,805
10.567	Food Distribution Program on Indian Reservations	3,005,214
10.570	Nutrition Program for the Elderly (Commodities)	1,066,678
10.652	Forestry Research	276,194
10.664	Cooperative Forestry Assistance	834,119
10.665	Schools and Roads: Grants to States	10,452,350
10.771	Rural Cooperative Development Grants	5,824
10.855	Distance Learning and Telemedicine Loans and Grants	524,579
10.901	Resource Conservation and Development	61,182
10.906	Watershed Surveys and Planning	50,000
10.962	International Training Foreign Participant	5,747
10.999	Miscellaneous Non-Major Grants	57,190
	TOTAL	$47,490,103

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 1999

			AMOUNT
CHILD NUTRITION CLUSTER			
10.553	School Breakfast Program		2,839,654
10.555	National School Lunch Program		13,898,466
10.556	Special Milk Program for Children		38,625
10.559	Summer Food Service Program for Children		406,529
		TOTAL	**$17,183,274**
EMERGENCY FOOD ASSISTANCE CLUSTER			
10.568	Emergency Food Assistance Program (Administrative Costs)		137,402
10.569	Emergency Food Assistance Program (Food Commodities)		2,557,713
		TOTAL	**$2,695,115**
FOOD STAMP CLUSTER			
10.551	Food Stamps		52,873,805
10.561	State Administrative Matching Grants for Food Stamp Program		5,926,893
		TOTAL	**$58,800,698**
DEPARTMENT OF COMMERCE			
11.303	Economic Development-Technical Assistance		91,936
11.307	Special Economic Development and Adjustment Assistance Program		39,133
11.550	Public Telecommunication Facilities-Planning and Construction		127,309
11.552	Telecommunications and Information Infrastructure Assistance Program		36,329
11.611	Manufacturing Extension Partnership		642,821
11.612	Advanced Technology Program		806,981
		TOTAL	**$1,744,509**
DEPARTMENT OF DEFENSE			
12.106	Flood Control Projects		21,090
12.110	Planning Assistance to States		190,825
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services		(5,080)
12.114	Collaborative Research and Development		(3,594)
12.400	Military Construction National Guard		7,520,406
12.401	National Guard Military Operations and Maintenance Projects		5,488,098
12.431	Basic Scientific Research		5,000
12.630	Basic, Applied, and Advanced Research in Science and Engineering: Passed Through From SCEEE Services Corp		21,511
12.900	Language Grant Program		170,427
		TOTAL	**$13,408,683**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 1999

		AMOUNT
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.228	Community Development Block Grant/States Program	11,443,489
14.231	Emergency Shelter Grants Program	546,754
14.239	Home Investment Partnerships Program	2,705,513
14.401	Fair Housing Assistance Program-State and Local	22,938
14.999	Miscellaneous Non-Major Grants	56,742
14.999	Miscellaneous Non-Major Grants: Passed Through From Pacific Marine Fisheries	163,098
	TOTAL	$14,938,534
SECTION 8 PROJECT-BASED CLUSTER		
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	3,185,865
	TOTAL	$3,185,865
SECTION 8 TENANT-BASED CLUSTER		
14.855	Section 8 Rental Voucher Program	2,376,946
14.857	Section 8 Rental Certificate Program	8,557,880
	TOTAL	$10,934,826
DEPARTMENT OF THE INTERIOR		
15.114	Indian Education: Higher Education Grant Program	48,618
15.130	Indian Education: Assistance to Schools	39,764
15.199	Tongue River Rehabilitation Grant	8,212,980
15.199	Tongue River Rehabilitation Loan: Passed Through From Northern Cheyenne Tribe	2,836,129
15.199	Miscellaneous Non-Major Grants	14,389
15.219	Wildlife Habitat Management Technical Assistance	84,994
15.224	Cultural Resource Management	24,188
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	958,727
15.252	Abandoned Mine Land Reclamation (AMLR) Program	3,116,337
15.299	Miscellaneous Non-Major Grants	233,564
15.502	Irrigation System Rehabilitation and Betterment	120,625
15.503	Small Reclamation Projects	14,563
15.504	Reclamation and Water Reuse Program	392,440
15.600	Anadromous Fish Conservation	5,000
15.608	Fish and Wildlife Management Assistance	239,171
15.612	Endangered Species Section 6	69,921
15.617	Wildlife Conservation and Appreciation	815
15.805	Assistance to State Water Resources Research Institutes	135,574
15.806	Water Education Program	44,419
15.808	U.S. Geological Survey-Research and Data Acquisition	16,887

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 1999

		AMOUNT
15.904	Historic Preservation Fund Grants-in-Aid	506,973
15.916	Outdoor Recreation: Acquisition, Development and Planning	22,083
15.921	Rivers, Trails and Conservation Assistance	(300)
15.977	State Partnerships	18,074
15.999	Miscellaneous Non-Major Grants	298,827
	TOTAL	**$17,454,762**
	FISH AND WILDLIFE CLUSTER	
15.605	Sport Fish Restoration	5,875,980
15.611	Wildlife Restoration	5,195,261
	TOTAL	**$11,071,241**
	DEPARTMENT OF JUSTICE	
16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	76,981
16.523	Juvenile Accountability Incentive Block Grants	1,519,343
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	726,349
16.547	Victims of Child Abuse	46,561
16.548	Title V Delinquency Prevention	90,259
16.549	Part E State Challenge Activities	87,500
16.550	State Justice Statistics Program For Statistical Analysis Centers	43,601
16.555	Sex Offender Registry Assistance	313,103
16.560	Justice Research, Development, and Evaluation Project Grants	12,117
16.575	Crime Victim Assistance	1,952,192
16.576	Crime Victim Compensation	26,583
16.579	Byrne Formula Grant Program	2,595,944
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	17,764
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	3,861,675
16.588	Violence Against Women Formula Grants	837,012
16.592	Local Law Enforcement Block Grants Program	243,916
16.593	Residential Substance Abuse Treatment for State Prisoners	333,294
16.598	State Identification Systems Formula Grant	194,710
16.606	State Criminal Alien Assistance Program	48,651
16.711	Troops to COPS	76,778
16.726	Juvenile Mentoring Program	19,936
16.727	Combating Underage Drinking	866,184
16.729	Drug-Free Communities Support Program Grants: Passed Through From HELP	692
16.999	Miscellaneous Non-Major Grants	63,584
	TOTAL	**$14,054,729**

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 1999

			AMOUNT
DEPARTMENT OF LABOR			
17.002	Labor Force Statistics		633,477
17.005	Compensation and Working Conditions Data		292,173
17.203	Labor Certification for Alien Workers		127,849
17.225	Unemployment Insurance		70,515,608
17.245	Trade Adjustment Assistance-Workers		1,769,271
17.248	Employment and Training Research and Development Projects		40,000
17.249	Employment Services and Job Training: Pilot and Demonstration Programs		1,641,650
17.253	Welfare-to-Work Grants to States and Localities		35,089
17.600	Mine Health and Safety Grants		96,016
17.999	National Occupational Information Coordinating Committee		104,952
		TOTAL	$75,256,085
EMPLOYMENT SERVICES CLUSTER			
17.207	Employment Service		6,719,031
17.801	Disabled Veterans Outreach Program (DVOP)		308,179
17.804	Local Veterans' Employment Representative Program		565,379
		TOTAL	$7,592,589
JTPA CLUSTER			
17.246	Employment and Training Assistance-Dislocated Workers		3,296,134
17.250	Job Training Partnership Act		7,030,430
		TOTAL	$10,326,564
DEPARTMENT OF TRANSPORTATION			
20.005	Boating Safety Financial Assistance		201,378
20.106	Airport Improvement Program		70,929
20.205	Highway Planning and Construction		217,134,316
20.215	Highway Training and Education		163,597
20.218	Motor Carrier Safety Assistance Program		619,955
20.219	National Recreational Trails Funding Program		1,094,088
20.505	Federal Transit Technical Studies Grant		168,084
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities		401,256
20.700	Pipeline Safety		21,321
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants		59,850
20.799	Miscellaneous Non-Major Grants		58,927
		TOTAL	$219,993,701

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		AMOUNT
FEDERAL TRANSIT CLUSTER		
20.507	Federal Transit Capital and Operating Assistance Formula Grants	1,074,777
	TOTAL	$1,074,777
HIGHWAY SAFETY CLUSTER		
20.600	State and Community Highway Safety	1,281,244
	TOTAL	$1,281,244
DEPARTMENT OF TREASURY		
21.004	Exchange of Federal Tax Information with State Tax Agencies	433,000
21.999	Miscellaneous Non-Major Grants	690,057
	TOTAL	$1,123,057
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION		
30.002	Employment Discrimination-State and Local Fair Employment Practices	99,231
	TOTAL	$99,231
GENERAL SERVICES ADMINISTRATION		
39.003	Donation of Federal Surplus Personal Property	949,884
	TOTAL	$949,884
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.000	NASA	20,572
43.001	Aerospace Education Services Program	7,519
43.002	Technology Transfer	23,576
43.002	Technology Transfer: Passed Through From RDI	919,889
43.999	Miscellaneous Non-Major Grants	98,668
	TOTAL	$1,070,224
NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES		
45.003	Promotion of the Arts in Education	4,970
45.007	Promotion of the Arts-State and Regional Programs	2,535
45.015	Promotion of the Arts-Folk Arts	7
45.023	Promotion of the Arts-Local Arts	60,533
45.024	Promotion of the Arts-Grants to Organizations and Individuals	95,732
45.025	Promotion of the Arts-Partnership Agreements	508,472
45.129	Promotion of the Humanities-Federal/State Partnership: Passed Through From MT Comm For Humanities	10,008
45.162	Promotion of the Humanities-Education Development and Demonstration	81,271

			AMOUNT
45.310	State Library Program		520,247
		TOTAL	**$1,283,775**

NATIONAL SCIENCE FOUNDATION

47.041	Engineering Grants		40,302
47.049	Mathematical and Physical Sciences		402,683
47.070	Computer and Information Science and Engineering		3,820
47.074	Biological Sciences		151,335
47.076	Education and Human Resources		529,621
		TOTAL	**$1,127,761**

SMALL BUSINESS ADMINISTRATION

59.000	Small Business Administration-Technical Assistance Grant		77,344
59.009	Procurement Assistance to Small Business		500
59.037	Small Business Development Center		597,178
		TOTAL	**$675,022**

DEPARTMENT OF VETERANS AFFAIRS

64.005	Grants to States For Construction of State Home Facilities		5,935
64.014	Veterans State Domiciliary Care		151,938
64.015	Veterans State Nursing Home Care		2,026,205
64.124	All-Volunteer Force Educational Assistance		60,797
64.199	Miscellaneous Non-Major Grants		249
64.203	State Cemetery Grants		28,807
64.999	Miscellaneous Non-Major Grants		16,731
		TOTAL	**$2,290,662**

ENVIRONMENTAL PROTECTION AGENCY

66.418	Construction Assistance for Wastewater Treatment		115,925
66.420	State and Local Manpower Development Program		45,295
66.423	Water Quality Control Information		6,218
66.423	Water Quality Control Information: Passed Through From Lewis and Clark Conserva		4,329
66.433	State Underground Water Source Protection		234,168
66.438	Construction Management Assistance		238,308
66.454	Water Quality Management Planning		70,529
66.456	National Estuary Program		284,830
66.458	Capitalization Grants For State Revolving Funds		8,947,174

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		AMOUNT
66.460	Nonpoint Source Implementation Grants	953,866
66.461	Wetlands Protection--State Development Grants	42,191
66.461	Wetlands Protection--State Development Grants: Passed Through From Gallatin Conservation	21,157
66.463	National Pollutant Discharge Elimination System Related State Program Grants	65,909
66.468	Capitalization Grants for Drinking Water State Revolving Fund	5,606,796
66.470	Hardship Grants for Rural Comm	341,200
66.500	Environmental Protection: Consolidated Research	314,704
66.605	Performance Partnership Grants	4,135,876
66.606	Surveys, Studies, Investigations and Special Purpose Grants	32,430
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	544,986
66.708	Pollution Prevention Grants Program	188,048
66.802	Superfund State Site: Specific Cooperative Agreements	1,689,649
66.804	State Underground Storage Tanks Program	38,218
66.805	Leaking Underground Storage Tank Trust Fund Program	491,127
66.808	Solid Waste Management Assistance	23,964
66.899	Miscellaneous Non-Major Grant	12,134
66.950	Environmental Education and Training Program: Passed Through From Asso: Envir-Education	157,769
66.951	Environmental Education Grants	3,212
	TOTAL	**$24,610,012**

DEPARTMENT OF ENERGY

81.041	State Energy Program	302,004
81.042	Weatherization Assistance for Low-Income Persons	3,333,584
81.049	Office of Energy Research Financial Assistance Program	9,351
81.086	Conservation Research and Development	1,605,787
81.104	Technology Development for Environmental Management	81,723
81.502	State Assistance-FEMA-Rebuild America	26,085
81.999	Miscellaneous Non-Major Grants	270,572
	TOTAL	**$5,629,106**

UNITED STATES INFORMATION AGENCY

82.001	Educational Exchange: Graduate Students	37,714
	TOTAL	**$37,714**

FEDERAL EMERGENCY MANAGEMENT AGENCY

83.007	Reimbursement for Firefighting on Federal Property	326,559
83.009	National Fire Academy Training Assistance	38,149
83.011	Hazardous Materials Training Program for Implementation of the Superfund	22,294

		AMOUNT
83.105	Community Assistance Program-State Support Services Element	89,317
83.505	State Disaster Preparedness Grants	50,110
83.534	Emergency Management State and Local Assistance	1,017,810
83.535	Mitigation Assistance	114,825
83.544	Public Assistance Grant	612,131
83.547	First Responder Anti-Terrorism Training Assistance	10,214
83.548	Hazard Mitigation Grant	336,273
83.551	Project Impact Building Disaster Resistant Communities	46,734
83.999	Miscellaneous Non-Major Grants	15,600
	TOTAL	**$2,680,016**

DEPARTMENT OF EDUCATION

84.002	Adult Education-State Grant Program	1,021,805
84.002	Adult Education-State Grant Program: Passed Through From Women's Opportunity	1,978
84.010	Title I Grants To Local Education Agencies	26,218,978
84.011	Migrant Education-Basic State Grant Program	781,396
84.013	Title I Program for Neglected and Delinquent Children	78,559
84.016	Undergraduate International Studies and Foreign Language	61,821
84.021	International: Overseas-Group Projects Abroad	53,572
84.023	Innovation and Development: Passed Through From Allegheny University	435
84.024	Early Education for Children with Disabilities	644,063
84.025	Services for Children With Deaf-Blindness	150,548
84.026	Media and Captioned Services for Individuals with Disabilities	2,460
84.029	Special Education - Personnel Development and Parent Training	471,134
84.031	Higher Education Institutional Aid	250,257
84.034	Public Library Services	1,563
84.035	Interlibrary Cooperation and Resource Sharing	15,264
84.048	Vocational Education-Basic Grants to States	4,842,997
84.066	TRIO-Educational Opportunity Centers	428,781
84.069	State Student Incentives Grants	172,404
84.086	Special Education-Progam for Severely Disabled Children	223,142
84.086	Special Education-Progam for Severely Disabled Children: Passed Through From Allegheny Univ-HS	26,462
84.094	Patricia Roberts Harris Fellowship	12,160
84.116	Fund for the Improvement of Postsecondary Education	142,090
84.117	America Reads - Challenge Grants: Passed Through From NW Regional Education	50,000
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	8,860,836
84.128	Rehabilitation Services-Service Projects	180,373
84.129	Rehabilitation Long-Term Training	76,989

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		AMOUNT
84.133	National Institute on Disability and Rehabilitation Research	84,475
84.144	Migrant Education - Coordination Program(B): Passed Through From Illinois Migrant Council	30,080
84.153	Business and International Education	(1,536)
84.154	Public Library Construction and Technology Enhancement	160,104
84.158	Secondary Education and Transitional Services for Youth With Disabilties	439,616
84.162	Immigrant Education	30,688
84.169	Independent Living-State Grants	342,724
84.170	Javits Fellowships	22,915
84.177	Rehabilitation Services-Independent Living Services for Older Individuals/Blind	210,412
84.181	Special Education-Grants for Infants and Families with Disabilities	1,779,616
84.185	Byrd Honors Scholarships	123,556
84.186	Safe and Drug-Free Schools and Communities - State Grants	2,584,510
84.187	Supported Employment Services for Individuals with Severe Disabilities	302,022
84.194	Bilingual Education Support Services	97,472
84.195	Bilingual Education: Professional Development	343,457
84.196	Education for Homeless Children and Youth	88,428
84.203	Star Schools: Passed Through From WA State: ESD 101	14,685
84.213	Even Start - State Educational Agencies	543,411
84.214	Even Start - Migrant Education	178,482
84.215	Fund for Improvement of Education	1,838
84.216	Capital Expenses	5,014
84.217	McNair Post-Baccalaureate Achievement	180,521
84.224	State Grants for Assistive Technology	815,442
84.224	State Grants for Assistive Technology: Passed Through From VA COMMONWEALTH UNIV.	17,751
84.235	Special Projects and Demonstrations for Providing Vocational Rehabilitation	230,028
84.243	Tech-Prep Education	481,480
84.265	Rehabiliation Training-State Vocational Rehabilitation Unit In-Service	35,333
84.281	Eisenhower Professional Development State Grants	1,578,067
84.298	Innovative Education Program Strategies	1,667,365
84.314	Even Start - Statewide Family Literacy Program	72,375
84.318	Technology Literacy Challenge Fund Grants	3,039,066
84.998	American Printing House for the Blind	3,009
84.999	Miscellaneous Non-Major Grants	95,638
	TOTAL	**$60,368,111**
	SPECIAL EDUCATION CLUSTER	
84.027	Special Education - Grants to States	11,117,714

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			AMOUNT
84.173	Special Education - Preschool Grants		1,209,195
		TOTAL	$12,326,909
STUDENT FINANCIAL ASSISTANCE CLUSTER			
84.007	Federal Supplemental Educational Opportunity Grants		1,567,676
84.032	Federal Family Education Loans		1,257,525
84.033	Federal Work-Study Program		2,133,176
84.038	Federal Capital Contributions		1,013,728
84.063	Federal Pell Grant Program		22,490,264
84.268	Federal Direct Student Loans		29,553,147
		TOTAL	$58,015,516
TRIO CLUSTER			
84.042	TRIO-Student Support Services		938,142
84.044	TRIO-Talent Search		455,306
84.047	TRIO-Upward Bound		1,314,449
		TOTAL	$2,707,897
UNITED STATES INSTITUTE OF PEACE			
91.001	International Peace and Conflict Management-Research and Education		8,626
		TOTAL	$8,626
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention		23,660
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services		35,192
93.043	Special Programs for the Aging-Title III, Part F-DiseasePrevention/Health Promotion Serv		80,616
93.046	Special Programs for the Aging-Title III, Part D for In-Home Services		45,680
93.048	Special Programs for Aging-Title IV-Training, Research & Discretionary Projects & Programs		7,545
93.110	Maternal and Child Health Federal Consolidated Programs		818,503
93.116	Project Grant and Cooperative for Tuberculosis Control Program		128,413
93.125	Mental Health Planning and Demonstration Projects		88
93.127	Emergency Medical Services for Children		71,887
93.130	Primary Care Services-Resource Coordination and Development Primary Care Offices		205,414
93.150	Projects for Assistance in Transition from Homelessness (PATH)		289,172
93.184	Disabilities Prevention		182,320
93.197	Childhood Lead Poisoning Prevention Projects-State and Community		151,790
93.217	Family Planning Services		1,105,796

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		AMOUNT
93.223	Development and Coordination of Rural Health Services	80,474
93.230	Consolidated Knowledge Development and Application Program	356,907
93.235	Abstinence Education	96,267
93.238	Cooperative Agreements/ State Treatment Outcomes and Performance Pilot Studies Enhancement	11,564
93.241	State Rural Hospital Flexibility Program	72,547
93.263	Occupational Safety and Health Training Grant	50,784
93.268	Childhood Immunization Grant	2,439,060
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	704,118
93.298	Nurse Practitioner and Nurse-Midwifery Education Programs	287,359
93.337	Biomedical Research Support: Passed Through From American Physiological S	36,801
93.358	Professional Nurse Traineeships	32,086
93.375	Minority Biomedical Research Support	241,266
93.556	Family Preservation and Support Services	539,235
93.558	Temporary Assistance for Needy Families (TANF)	24,915,131
93.563	Child Support Enforcement	7,648,748
93.566	Refugee and Entrant Assistance-State Administered Programs	143,281
93.568	Low Income Home Energy Assistance	6,902,214
93.569	Community Services Block Grant	3,079,528
93.571	Community Services Block Grant Discretionary Awards-Community Food and Nutrition	18,674
93.576	Refugee and Entrant Assistance-Discretionary Grants	10,296
93.586	State Court Improvement Program	108,723
93.597	Grants to States for Access and Visitation Programs	46,604
93.600	Head Start	198,186
93.630	Developmental Disabilities Basic Support and Advocacy Grants	408,156
93.632	Developmental Disabilities University Affiliated Programs	267,779
93.643	Children's Justice Grants to States	27,338
93.645	Child Welfare Service-State Grant	919,444
93.656	Temporary Child Care and Crisis Nurseries	250,194
93.658	Foster Care Title IV-E	9,247,383
93.659	Adoption Assistance	1,341,291
93.667	Social Services Block Grant	7,517,052
93.669	Child Abuse and Neglect State Grants	309,990
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters	280,793
93.673	Grants to States for Planning and Development of Dependent Care Program	5,920
93.674	Independent Living	230,200
93.767	State Children's Insurance Program	355,753
93.822	Health Careers Opportunities Program	125,767

		AMOUNT
93.880	Minority Access to Research Careers	9,958
93.912	Rural Outreach-Rural Network Developmental Program	128,118
93.913	Grants to States for Operation of Offices of Rural Health	13,434
93.917	HIV Care Formula Grants	362,546
93.919	Cooperative Agreements for State-Based Breast and Cervical Cancer Early Detection	781,042
93.922	Minority Apprenticeship Program	33,771
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	8,975
93.926	Healthy Start Initiative	31,409
93.938	Cooperative Agreements to Support School Health Programs	313,730
93.940	HIV Prevention Activities-Health Department Based	924,540
93.944	HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	64,759
93.951	Demonstration Grants to States with Respect to Alzheimer's Disease	248,172
93.958	Block Grants for Community Mental Health Services	871,526
93.959	Block Grants for Prevention and Treatment of Substance Abuse	4,621,153
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	252,964
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluations	508,023
93.991	Preventive Health and Health Services Block Grant	1,129,820
93.994	Maternal and Child Health Services Block Grant to the States	2,470,702
93.999	Miscellaneous Non-Major Grants	212,889
	TOTAL	**$85,440,520**
AGING CLUSTER		
93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	1,549,868
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	2,337,742
	TOTAL	**$3,887,610**
CHILD CARE CLUSTER		
93.575	Child Care and Development Block Grant	7,760,463
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development	7,657,868
	TOTAL	**$15,418,331**
MEDICAID CLUSTER		
93.775	State Medicaid Fraud Control Units	391,148
93.777	State Survey and Certification of Health Care Providers and Suppliers	1,800,059
93.778	Medical Assistance Program	307,572,986
	TOTAL	**$309,764,193**
CORPORATION FOR NATIONAL & COMMUNITY SERVICE		
94.003	State Commissions	118,959

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		AMOUNT
94.004	Learn and Serve America-School and Community Based Programs	72,656
94.004	Learn and Serve America-School and Community Based Programs: Passed Through From Corp For Natl Svc	53,052
94.005	Learn & Serve America-Higher Education	71,909
94.005	Learn & Serve America-Higher Education: Passed Through From Campus Compact	3,262
94.005	Learn & Serve America-Higher Education: Passed Through From Asso of College Teachers	23,312
94.006	AmeriCorps	1,645,906
94.007	Planning and Program Development Grants	962
94.009	Training and Technical Assistance	95,705
94.013	Volunteers in Service to America	23,269
94.013	Volunteers in Service to America: Passed Through From Corp for Natl Svc	16,636
	TOTAL	**$2,125,628**

SOCIAL SECURITY ADMINISTRATION

DISABILITY INSURANCE/SSI CLUSTER

96.001	Social Security - Disability Insurance	4,345,082
	TOTAL	**$4,345,082**

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		AMOUNT
RESEARCH AND DEVELOPMENT CLUSTER		
DEPARTMENT OF AGRICULTURE		
10.001	Agricultural Research-Basic and Applied Research	588,838
10.025	Plant and Animal Disease, Pest Control, and Animal Care	108,775
10.069	Conservation Reserve Program	36,873
10.200	Grants for Agricultural Research, Special Research Grants	935,187
10.200	Grants for Agricultural Research, Special Research Grants: Passed Through From WSU	14,897
10.200	Grants for Agricultural Research, Special Research Grants: Passed Through From Utah State University	1,000
10.200	Grants for Agricultural Research, Special Research Grants: Passed Through From University of Washington	3,584
10.206	Grants for Agricultural Research-Competitive Research Grants	1,443,472
10.206	Grants for Agricultural Research-Competitive Research Grants: Passed Through From University of California	9,690
10.206	Grants for Agricultural Research-Competitive Research Grants: Passed Through From Kansas State University	10,056
10.207	Animal Health and Disease Research	20,684
10.215	Sustainable Agriculture Research and Education: Passed Through From Utah State University	701
10.217	Higher Education Challenge Grants	27,817
10.224	Fund for Rural America-Research, Education, and Extension Activities	146,837
10.224	Fund for Rural America-Research, Education, and Extension Activities: Passed Through From University Of Minnesota	55
10.224	Fund for Rural America-Research, Education, and Extension Activities: Passed Through From University of Idaho	19,529
10.250	Agricultural and Rural Economic Research	40,791
10.250	Agricultural and Rural Economic Research: Passed Through From North Dakota State Univ	(84)
10.500	Cooperative Extension Service	592,092
10.500	Cooperative Extension Service: Passed Through From Utah State University	51,627
10.500	Cooperative Extension Service: Passed Through From University of Wyoming	2,791
10.652	Forestry Research	1,825,710
10.664	Cooperative Forestry Assistance	9,546
10.902	Soil and Water Conservation	89,269
10.903	Soil Survey	651
10.961	International Agricultural Research Program	53,904
10.963	Scientific and Technical Cooperation	(758)
10.R&D	Miscellaneous Research and Development	972
	TOTAL	$6,034,506
DEPARTMENT OF COMMERCE		
11.312	Research and Evaluation Program	9,281

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		AMOUNT
11.427	Fisheries Development & Utilization Research	16,544
11.446	Antarctic Marine Living Resources	39,360
11.612	Advanced Technology Program	122,982
	TOTAL	$188,167
DEPARTMENT OF DEFENSE		
12.114	Collaborative Research and Development	363,994
12.300	Basic and Applied Scientific Research	127,238
12.300	Basic and Applied Scientific Research: Passed Through From University of Colorado	182,574
12.300	Basic and Applied Scientific Research: Passed Through From Laser Photonics	2,559
12.420	Military Medical Research and Development	76,162
12.431	Basic Scientific Research	837,679
12.630	Basic, Applied, and Advanced Research in Science and Engineering	812,311
12.800	Air Force Defense Research Sciences Program	763,354
12.800	Air Force Defense Research Sciences Program: Passed Through From Laser Photonics Technolo	143,011
12.901	Mathematical Sciences Grants Program	5,586
12.910	Reseach and Technology Development	633,369
12.910	Reseach and Technology Development: Passed Through From University of Idaho	10,908
	TOTAL	$3,958,745
DEPARTMENT OF THE INTERIOR		
15.034	Agriculture on Indian Lands	9,593
15.143	Training and Technical Assistance Indian Tribal Governments	20,601
15.200	Bureau of Land Management-Cooperative Assistance Agreement	221,979
15.224	Cultural Resource Management	133,284
15.225	Recreation Resource Management	22,101
15.252	Abandoned Mine Land Reclamation (AMLR) Program	23,818
15.504	Reclamation and Water Reuse Program	48,048
15.600	Anadromous Fish Conservation	121,493
15.608	Fish and Wildlife Management Assistance	1,362,305
15.614	Coastal Wetlands Planning, Protection and Restoration Act	27,586
15.615	Cooperative Endangered Species Conservation Fund	1,731
15.618	Administrative Grants for Federal Aid in Sport Fish and Wildlife Restoration	15,019
15.805	Assistance to State Water Resources Research Institutes	21,323
15.808	U.S. Geological Survey-Research and Data Acquisition	581,475
15.808	U.S. Geological Survey-Research and Data Acquisition: Passed Through From U OF Minnesota	313
15.900	National Archives-NHPRC	85,639
15.910	National Natural Landmarks Program	5,402
15.912	National Historic Landmark	90,341
15.915	Technical Preservation Services	265,685

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		AMOUNT
15.916	Outdoor Recreation: Acquisition, Development and Planning	15,774
15.921	Rivers, Trails and Conservation Assistance	6,838
15.923	National Center for Preservation Technology and Training	32,201
15.975	Research Information	232,939
15.977	State Partnerships	91,225
15.R&D	Miscellaneous Research and Development	217,070
15.R&D	Miscellaneous Research and Development: Passed Through From Arthur Carhart	23,062
	TOTAL	**$3,676,845**
DEPARTMENT OF JUSTICE		
16.574	Criminal Justice Discretionary Grants	25,471
	TOTAL	**$25,471**
DEPARTMENT OF STATE		
19.000	Aid for International Development	642,859
	TOTAL	**$642,859**
DEPARTMENT OF TRANSPORTATION		
20.205	Highway Planning and Construction	275,314
20.215	Highway Training and Education: Passed Through From Lockheed Martin	(233)
20.701	University Transportation Centers Program	756,111
	TOTAL	**$1,031,192**
DEPARTMENT OF TREASURY		
21.020	Community Development Financial Institutions Program	678,529
	TOTAL	**$678,529**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.000	NASA	1,925,038
43.000	NASA: Passed Through From UNIV. OF N DAKOTA	21,443
43.001	Aerospace Education Services Program	1,832,758
43.001	Aerospace Education Services Program: Passed Through From UND	33,978
43.001	Aerospace Education Services Program: Passed Through From UC-Berkley	39,703
43.001	Aerospace Education Services Program: Passed Through From Lockheed Martin	344,911
43.001	Aerospace Education Services Program: Passed Through From Ionwerks	6,438
43.001	Aerospace Education Services Program: Passed Through From CIT	5,425
43.002	Technology Transfer	484,110
43.002	Technology Transfer: Passed Through From Univ of N Dakota	7,601
43.002	Technology Transfer: Passed Through From University of Wyoming	8,221
43.R&D	Miscellaneous Research and Development	262,549
43.R&D	Miscellaneous Research and Development: Passed Through From Virginia Tech	11,578
43.R&D	Miscellaneous Research and Development: Passed Through From VSU	7,966

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		AMOUNT
43.R&D	Miscellaneous Research and Development: Passed Through From UND	65,795
	TOTAL	**$5,057,514**
NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES		
45.149	Promotion of the Humanities Division of Preservation and Access	16,019
	TOTAL	**$16,019**
NATIONAL SCIENCE FOUNDATION		
47.041	Engineering Grants	2,541,444
47.049	Mathematical and Physical Sciences	2,344,366
47.049	Mathematical and Physical Sciences: Passed Through From University of Alabama	90,547
47.049	Mathematical and Physical Sciences: Passed Through From U of Missouri	215,928
47.049	Mathematical and Physical Sciences: Passed Through From Temple University	76,618
47.049	Mathematical and Physical Sciences: Passed Through From Scientific Materials	338
47.050	Geosciences	318,458
47.050	Geosciences: Passed Through From University of Oregon	9,197
47.070	Computer and Information Science and Engineering	106,897
47.074	Biological Sciences	2,132,357
47.074	Biological Sciences: Passed Through From University of Wisconsin	10,000
47.074	Biological Sciences: Passed Through From U of Connecticut	14,079
47.074	Biological Sciences: Passed Through From University of California	131,412
47.074	Biological Sciences: Passed Through From Cal State University	1,182
47.075	Social, Behavioral, and Economic Sciences	160,448
47.076	Education and Human Resources	2,091,894
47.078	Polar Programs	20,483
47.R&D	Miscellaneous Research and Development	536,212
	TOTAL	**$10,801,860**
ENVIRONMENTAL PROTECTION AGENCY		
66.423	Water Quality Control Information	2,330
66.454	Water Quality Management Planning: Passed Through From National Water Research	949
66.456	National Estuary Program	263,420
66.460	Nonpoint Source Implementation Grants: Passed Through From Glacier County	(3,994)
66.460	Nonpoint Source Implementation Grants: Passed Through From Hill County	29,505
66.460	Nonpoint Source Implementation Grants: Passed Through From Missoula Conservation	12,068
66.460	Nonpoint Source Implementation Grants: Passed Through From N. Powell Conservation	28,988
66.460	Nonpoint Source Implementation Grants: Passed Through From Teton County	76,078
66.463	National Pollutant Discharge Elimination System Related State Program Grants	20,321
66.500	Environmental Protection: Consolidated Research	169,733

		AMOUNT
66.500	Environmental Protection: Consolidated Research: Passed Through From Kansas State University	101,831
66.502	Pesticides Control Research	57,243
66.504	Solid Waste Disposal	137,011
66.606	Surveys, Studies, Investigations and Special Purpose Grants	541,084
66.607	Training and Fellowships for the Environmental Protection Agency	5,481
66.802	Superfund State Site: Specific Cooperative Agreements	448
66.802	Superfund State Site: Specific Cooperative Agreements: Passed Through From CH2M Hill	40,649
66.802	Superfund State Site: Specific Cooperative Agreements: Passed Through From CDM Federal	83,166
66.808	Solid Waste Management Assistance	25,513
66.951	Environmental Education Grants	11,557
66.R&D	Miscellaneous Research and Development	24,900
	TOTAL	$1,628,281
DEPARTMENT OF ENERGY		
81.004	University Laboratory Cooperative Program	245,611
81.004	University Laboratory Cooperative Program: Passed Through From University of California	49,741
81.004	University Laboratory Cooperative Program: Passed Through From Sandia Labs	29,873
81.004	University Laboratory Cooperative Program: Passed Through From Lawrence Livermore Labor	40,617
81.041	State Energy Program	71,000
81.049	Office of Energy Research Financial Assistance Program	838,894
81.049	Office of Energy Research Financial Assistance Program: Passed Through From University of Nebraska	182,943
81.049	Office of Energy Research Financial Assistance Program: Passed Through From Princeton University	118,327
81.049	Office of Energy Research Financial Assistance Program: Passed Through From MacTech	26,132
81.049	Office of Energy Research Financial Assistance Program: Passed Through From FSU	32,890
81.052	Energy Conservation for Institutional Buildings	16,389
81.064	Office of Scientific and Technical Information	15,714
81.077	University Research Instrumentation	28,876
81.079	Regional Biomass Energy Programs	92,126
81.087	Renewable Energy Research and Development	133,306
81.087	Renewable Energy Research and Development: Passed Through From MSE	47,275
81.087	Renewable Energy Research and Development: Passed Through From Consortium for Plant Bio	8,592
81.092	Environmental Restoration	233,180
81.104	Technology Development for Environmental Management	3,421
81.104	Technology Development for Environmental Management: Passed Through From MSE	326,440

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 1999

		AMOUNT
81.R&D	Miscellaneous Research and Development	26,183
	TOTAL	$2,567,530
DEPARTMENT OF EDUCATION		
84.023	Innovation and Development	206,432
84.116	Fund for the Improvement of Postsecondary Education	40,594
84.116	Fund for the Improvement of Postsecondary Education: Passed Through From University of Southern C	13,147
84.133	National Institute on Disability and Rehabilitation Research	463,311
84.153	Business and International Education	88,605
84.309	National Institute on Postsecondary Education, Libraries, and Lifelong Learning	171,245
	TOTAL	$983,334
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.121	Oral Diseases and Disorders Research	17,013
93.127	Emergency Medical Services for Children	165,978
93.136	Injury Prevention and Control Research and State and Community Based Programs	225,058
93.173	Research Related to Deafness and Communication Disorders	32,836
93.173	Research Related to Deafness and Communication Disorders: Passed Through From University of California	39,117
93.184	Disabilities Prevention	230,516
93.226	Health Care Systems Cost and Access Research and Development Grants: Passed Through From Norion Diagnostics	6,509
93.242	Mental Health Research Grants	190,341
93.279	Drug Abuse Research Programs	60,503
93.282	Mental Health National Research Service Awards for Research Training	23,342
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	300,058
93.361	Nursing Research	94,825
93.371	Biomedical Technology	201
93.371	Biomedical Technology: Passed Through From University of Washington	39,284
93.389	Research Infrastructure	175,460
93.395	Cancer Treatment Research	395,984
93.396	Cancer Biology Research	(2,202)
93.595	Welfare Reform Research, Evaluations and National Studies	67,038
93.779	Health Care Financing Research, Demonstrations and Evaluations	143,622
93.821	Cell Biology and Biophysics Research	1,084
93.837	Heart and Vascular Diseases Research	121,999
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	213,293
93.854	Biological Basis Research in the Neurosciences	322,132
93.855	Allergy, Immunology and Transplantation Research	860,844
93.856	Microbiology and Infectious Diseases Research	1,687,428

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 1999

		AMOUNT
93.856	Microbiology and Infectious Diseases Research: Passed Through From UCLA	89,474
93.859	Pharmacology, Physiology, and Biological Chemistry Research	579,238
93.862	Genetics and Developmental Biology Research	281,369
93.867	Vision Research	10,743
93.906	Rural Health Medical Education Demonstration Projects	178,769
93.922	Minority Apprenticeship Program	29,194
	TOTAL	$6,581,050
	TOTAL RESEARCH AND DEVELOPMENT CLUSTER	**$43,871,902**
	TOTAL EXPENDITURES OF FEDERAL AWARDS	**$1,168,354,662**

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STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

Note 1. Basis of Accounting

The assistance amounts presented on the accompanying Schedule of Expenditures of Federal Awards of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Food Distribution Programs

The amounts reported for Food Distribution programs (CFDA # 10.550, 10.559, 10.567, 10.569, and 10.570) represent the dollar value of food commodities distributed to eligible recipients during the year, plus the value of undistributed commodities held in the state's warehouse. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the commodities programs is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 1999, Montana distributed $851,555 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed $7,333,857 in commodities in fiscal year 1999. The value at June 30, 1999 of commodities stored in the state's warehouse is $1,699,563 for which the state is liable in the event of loss. The state has insurance to cover this liability.

Federal Surplus Personal Property

In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is 23.3 percent of the original acquisition cost of the property.

Capitalization Grants for State Revolving Funds

The amount presented for the Capitalization Grants for State Revolving Funds (CFDA # 66.458) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 1999 is $41,470,032.

During fiscal year 1999, the state of Montana began issuing loans for the Drinking Water State Revolving Fund program (DW-SRF) (CFDA #66.468). The total amount presented on the SEFA represents federal contributions to the loans, administrative costs and program set-aside costs expended as of June 30, 1999. The amount of the loans outstanding for the DW-SRF program as of June 30, 1999, is $6,207,123.

Special Economic Development and Adjustment Assistance Program
The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 1999 is $357,185.

Federal Family Education Loans
The Montana Guaranteed Student Loan Program (MGSLP) guaranteed $79,969,840 in new loans for the Federal Family Education Loans (CFDA #84.032) program during fiscal year 1999. The outstanding loan balance (including principal, accrued interest and collection costs) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirements was $70,527,154 at June 30, 1999. The amount reported on the accompanying Schedule of Expenditures of Federal Awards represents the administrative cost allowance received for the program. In addition to the administrative cost allowance, MGSLP received or accrued revenue from the U.S. Department of Education in fiscal year 1999 of $18,828,699 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor and $204,819 for providing supplemental pre-claims assistance services.

Federal Perkins Loan Program - Federal Capital Contributions
The amount reported for the Federal Perkins Loan Program - Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 1999 is $25,976,885.

Nursing Student Loan Program
For the Nursing Student Loan Program (CFDA #93.364) there were no federal contributions or administrative costs expended during the fiscal year ended June 30,1999. The amount of loans outstanding as of June 30, 1999 is $1,311,264.

Childhood Immunization Grants
The amount reported for the Childhood Immunization Grants (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 1999. The state uses the CDC price list to calculate the value of doses received. During fiscal year 1999, Montana received 175,607 vaccine doses valued at $1,661,425.

Tongue River - Northern Cheyenne Tribal Loan
The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994, in which the tribe agreed to loan the State of Montana $11,500,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. The amount presented for the Tongue River Rehabilitation Loan (CFDA #15.199) represents the amount of tribal loan funds expended on projects costs

during the fiscal year 1999. The amount of the loan outstanding as of June 30, 1999, is $11,019,549.

Note 2. Type A Federal Programs

The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the level of federal award expenditures to be used in defining Type A and Type B federal assistance programs. Type A programs for the state of Montana are those which total federal awards expenditures equal or exceed $7,199,401 for the biennial period.

Note 3. CFDA #

The CFDA # assigned for each federal program listed in the Schedule of Expenditures of Federal Awards was based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.*99, **.999, or **.R&D. The first two digits represent the federal agency, the third digit represents the division within the federal agency, and "R&D" designation represents a research and/or development program. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. In cases where the federal agency does not have a designated CFDA#, the program was assigned a CFDA# in the format 99.999.

Note 4. Federal Excess Personal Property

The state of Montana receives Federal Excess Personal Property (FEPP). The title of this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.3 percent of the original acquisition cost of the property. The following is a list of FEPP received by the state of Montana.

CFDA#	Program	FY99 Amount	Inventory
10.664	Cooperative Forestry Assistance	$171,085	$5,037,917
10.R&D	Miscellaneous Research & Development	18,791	48,959
12.999	Miscellaneous Non-Major	22,958	66,304
93.103	Food/Drug Administration Research	1,282	1,282

Note 5. Books for the Blind and Physically Handicapped

The Montana State Library receives "talking book" machines, books, and cassettes from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 1999 was $1,817,366. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 6. Unemployment Benefits

The unemployment compensation system is a Federal-State partnership. State Unemployment Insurance laws must conform to certain provisions of the federal law. The federal funds are expended for administrative costs. The state unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund, used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards. The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for CFDA #17.225.

UI Administrative Costs	$10,761,400
State UI Funds	56,484,111
Federal UI Funds	3,270,097
Total	$70,515,608

Note 7. Subgrants to State Agencies

Federal assistance subgranted from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from nonstate sources which are considered subgrants by the awarding agency are treated as pass through grants to the state and are reported on the Schedule of Expenditures of Federal Awards.

Note 8. Subgrants to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non- state entities for fiscal year 1999.

CFDA Number	*Program Title*	*Amount Provided to Subrecipients*
10.001	Agricultural Research-Basic and Applied Research	$587
10.025	Plant and Animal Disease, Pest Control, and Animal Care	26,988
10.069	Conservation Reserve Program	16,493
10.200	Grants for Agricultural Research, Special Research Grants	(3,388)
10.206	Grants for Agricultural Research - Competitive Research Grants	2,221
10.224	Fund for Rural America-Research, Education, and Extension Activities	477,648
10.500	Cooperative Extension Service	20,093
10.550	Commodities	2,447,957
10.553	School Breakfast Program	2,839,654
10.555	National School Lunch Program	13,869,287
10.556	Special Milk Program for Children	38,625
10.557	Special Supplemental Nutrition Program for WIC	3,525,584
10.558	Child and Adult Care Food Program	19,015,655
10.559	Summer Food Program for Children	374,606
10.570	Nutrition Program for the Elderly (Commodities)	643,594
11.611	Manufacturing Extension Partnership	42,462
11.612	Advanced Technology Program	1,199,076
12.300	Basic and Applied Scientific Research	35,779
12.800	Air Force Defense Research Sciences Program	23,313
12.900	Language Grant Program	33,389
12.910	Research & Technology Development	10,288
14.228	Community Development Block Grant/State's Program	11,128,477
14.239	Home Investment Partnerships Program	2,549,257
14.855	Section 8 Rental Voucher Program	1,572,425
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehab	1,439,380
14.857	Section 8 Rental Certificate Program	1,572,425
15.608	Fish and Wildlife Management Assistance	621,990
15.805	Assistance to State Water Resources Research Institutes	55,852
15.910	National Natural Landmarks Program	11,363
15.912	National Historic Landmark	54,545
15.915	Technical Preservation Services	59,407
15.921	Rivers, Trails and Conservation Assistance	6,216

CFDA Number	*Program Title*	*Amount Provided to Subrecipients*
15.923	National Center for Preservation Technology and Training	700,196
15.999	Miscellaneous Department of the Interior	3,815
16.540	Juvenile Justice & Delinquency Prevention - Allocation to States	593,431
16.548	Title V Delinquency Prevention Program	95,485
16.549	Part E State Challenge Activities	66,000
16.575	Crime Victim Assistance	779,629
16.579	Byrne Formula Grant Program	1,568,458
16.588	Violence Against Women Formula Grant	472,775
16.592	Local Law Enforcement Block Grant Program	197,110
17.249	Employment Services and Job Training - Pilot and Demo. Programs	1,282,849
17.250	Job Training Partnership Act (JTPA)	9,491,098
20.205	Highway Planning and Construction	6,447,409
20.219	Recreational Trails	974,537
20.505	Federal Transit Technical Studies Grant	106,117
20.507	Federal Transit Capital and Operating Assistance Formula Grant	649,045
20.513	Capital Assistance Program for the Elderly and Persons with Disabilities	72,913
20.600	State and Community Highway Safety	226,703
20.701	University Transportation Centers Program	205,506
21.999	Treasury/US Customs	101,083
43.001	Aerospace Education Services Program	142,684
43.002	Technology Transfer	42,994
43.999	Miscellaneous NASA	37,300
45.023	Promotion of the Arts-Local Arts Agencies Program	23,831
45.024	Promotion of the Arts-Grants to Organizations	90,964
45.025	Promotion of the Arts-Partnership Agreements	274,233
45.310	Institute of Museum & Library Services - General Operating Support	56,763
47.041	Engineering Grants	25,162
47.049	Mathematical and Physical Sciences	122,399
47.074	Biological Sciences	182,522
47.076	Education and Human Resources	544,369
47.096	National Science Foundation	6,000
59.000	SBDC/Microloan	28,803
59.037	Small Business Development Center	429,367
64.015	Veterans State Nursing Home Care	1,801,420
66.418	Construction Assistance for Waste Water Treatment	105,925
66.423	Water Quality Control Information	2,212
66.456	National Estuary Program	197,710
66.500	Environmental Protection - Consolidated Research Grants	42,105

CFDA Number	*Program Title*	*Amount Provided to Subrecipients*
66.606	Surveys, Studies, Investigations and Special Purpose Grants	13,217
81.087	Renewable Energy Research and Development	15,666
82.001	Educational Exchange-Graduate Students	6,553
83.505	State Disaster Preparedness Program	864
83.516	Disaster Assistance	478,408
83.534	Emergency Management - State & Local Assistance	466,500
83.535	Mitigation Assistance	3,573
83.548	Hazard Mitigation Grant Program	130,347
84.002	Adult Education-State Grant Program	924,061
84.010	Title I Grants to Local Educational Agencies	25,585,176
84.011	Migrant Education-Basic State Grant Program	703,090
84.013	Title I Program for Neglected and Delinquent Children	78,559
84.021	International: Overseas - Group Projects Abroad	20,248
84.024	Early Education for Children with Disabilities	11,215
84.027	Special Education - Grants to States	10,223,512
84.029	Special Education - Personnel Development and Parent Training	42,060
84.034	Public Library Services	1,563
84.035	Interlibrary Cooperation and Resources Sharing	15,264
84.048	Vocational Education - Basic Grants to States	3,801,002
84.069	State Student Incentive Grants	14,237
84.086	Special Education Program for Severely Disabled Children	24,000
84.116	Fund for the Improvement of Postsecondary Education	57,340
84.133	National Institute on Disability and Rehabilitation Research	50,003
84.153	Business and International Education	6,000
84.154	Public Library Construction and Technology Enhancement	158,138
84.158	Secondary Education and Transitional Services for Youth with Disabilities	109,102
84.162	Immigrant Education	30,164
84.173	Special Education - Preschool Grants	1,157,829
84.181	Special Education - Grants for Infants and Families with Disabilities	6,000
84.186	Safe & Drug Free Schools and Communities - State Grants	2,388,379
84.195	Bilingual Education - Professional Development	53,200
84.196	Education for Homeless Children and Youth	31,680
84.213	Even Start - State Educational Agencies	510,205
84.214	Even Start - Migrant Education	161,965
84.216	Capital Expense	5,014
84.224	Assistive Technology	32,644
84.235	Special Projects & Demonstrations for Providing Vocation Rehab Services	72,925
84.243	Tech-Prep Education	373,899

CFDA Number	*Program Title*	*Amount Provided to Subrecipients*
84.281	Eisenhower Professional Development State Grants	1,304,515
84.298	Innovative Education Program Strategies	1,410,048
84.309	National Institute on Postsecondary Ed, Libraries, & Lifelong Learning	7,470
84.314	Even Start-Statewide Family Literacy Program	50,000
84.318	Technology Literacy Challenge Fund Grants	2,920,619
93.041	Special Programs for the Aging -Title VII, Chapter 3: Prevention	23,660
93.042	Special Programs for the Aging -Title VII, Chapter 2: Long Term Care	45,628
93.043	Special Programs for the Aging - Title III, Part F: Disease Prevention	87,480
93.044	Special Programs for the Aging - Title III, Part B: Supportive Services	1,510,601
93.045	Special Programs for the Aging - Title III, Part C: Nutrition Services	2,311,592
93.046	Special Programs for the Aging - Title III, Part D: In Home Services	93,954
93.048	Special Programs for the Aging - Title IV: Training, Research	145
93.110	Maternal and Child Health Federal Consolidated Programs	70,944
93.150	Projects for Assistance in Transition from Homelessness (PATH)	288,273
93.184	Disabilities Prevention	42,232
93.197	Childhood Lead Poisoning Prevention Projects-State and Community	44,672
93.217	Family Planning Services	731,818
93.223	Development and Coordination of Rural Health Services	16,859
93.556	Family Preservation and Support Services	344,092
93.558	Temporary Assistance for Needy Families (TANF)	715,361
93.561	Families Achieving Independence in Montana/Job Opportunities & Basic Skills	212,725
93.566	Refugee and Entrant Assistance-State Administered Programs	207,522
93.575	Child Care and Development Block Grant	2,970,960
93.576	Refugee and Entrant Assistance-Discretionary Grants	10,321
93.596	Child Care Mandatory and Matching Funds of the Child Care & Development	240,273
93.597	Grants to States for Access and Visitation Programs	43,130
93.656	Temporary Child Care and Crisis Nurseries	12,638
93.658	Foster Care Title IV-E	1,403,921
93.669	Child Abuse and Neglect State Grants	283,450
93.671	Family Violence Prevention and Services/Grants for Battered Women	293,940
93.674	Independent Living	161,321
93.778	Medical Assistance Program	600
93.779	Health Care Financing Research, Demonstrations, and Evaluations	222,443
93.854	Biological Basis Research in the Neurosciences	12,370
93.912	Rural Outreach - Rural Network Development Program	77,319
93.951	Demonstration Grants to States with Respect to Alzheimers Disease	247,520
93.959	Block Grants for Prevention and Treatment of Substance Abuse	4,126,637
93.970	Health Professions Recruitment Program for Indians	30,000

CFDA Number	*Program Title*	*Amount Provided to Subrecipients*
93.991	Preventive Health and Health Services Block Grant	208,473
93.994	Maternal and Child Health Services Block Grant to the States	1,869,041
94.004	Learn and Serve America - School and Community Based Program	43,211
94.005	Learn and Serve America - Higher Education	25,352
94.006	Americorps	1,661,505
TOTAL		$166,050,407

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Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for the fiscal year ended June 30, 1999, and have issued our report thereon dated November 18, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the state of Montana's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to the management of the state of Montana during the course of our audit work.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the state of Montana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the state of Montana's

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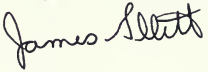
ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs, Section II, #1-1 through #1-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Section II, #1-1 to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to the management of the state of Montana during the course of our audit work.

This report is intended for the information of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

November 18, 1999

FY98 Financial Section

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as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the report of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the state of Montana as of June 30, 1998, and the results of its operations, the cash flows of its proprietary and nonexpendable trust fund types and discretely presented component units, the changes in plan net assets of its component unit pension trust funds and investment trust fund, and the changes in fund balance and current funds revenues, expenditures, transfers and other changes of the component unit higher education funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 1998, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Respectfully submitted,

James H. Gillett, CPA
Deputy Legislative Auditor

November 5, 1998

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STATE OF MONTANA
Combined Balance Sheet
All Fund Types, Account Groups and Discretely Presented Component Units
June 30, 1998
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
ASSETS/OTHER DEBITS	**GENERAL**	**SPECIAL REVENUE**	**DEBT SERVICE**	**CAPITAL PROJECTS**	**ENTERPRISE**	**INTERNAL SERVICE**
Assets:						
Cash/Cash Equivalents (Note 4)	$ 61,804	$ 223,831	$ 34,958	$ 88,231	$ 19,594	$ 17,665
Receivables (Net of Uncollectibles)	76,143	57,662	1,352	1,022	18,409	975
Interfund Loans Receivable (Note 13)	24,981	35,485	-	-	-	176
Due from Other Governments	6,329	121,835	-	-	-	18
Due from Primary Government (Note 13)	-	-	-	-	-	-
Due from Component Units (Note 13)	6,949	644	-	-	92	693
Due from Other Funds (Note 13)	75,722	35,416	304	918	328	4,147
Inventories	2,040	49,505	-	-	5,481	881
Equity in Pooled Investments (Note 4)	-	10,064	-	-	-	-
Long-Term Loans/Notes Receivable	9	44,486	37,052	-	50,765	-
Advances to Other Funds (Note 13)	9,931	263	-	-	-	-
Investments (Note 4)	-	42,275	2,769	-	15,295	38,595
Securities Lending Collateral (Note 4)	-	10,255	2,228	4,886	1,470	11,284
Land	-	-	-	-	800	236
Buildings/Improvements	-	-	-	-	5,390	-
Equipment	-	-	-	-	2,629	123,688
Other Fixed Assets	-	-	-	-	1,385	-
Construction in Progress	-	-	-	-	29	2,662
Accumulated Depreciation	-	-	-	-	(5,263)	(70,417)
Intangible Assets	-	-	-	-	52	14
Deferred Charges	-	-	-	-	1,199	-
Other Assets	5,265	2,078	-	5	1,992	188
Other Debits:						
Amount Available - Debt Service Funds	-	-	-	-	-	-
Resources to be Provided in Future Years	-	-	-	-	-	-
TOTAL ASSETS/OTHER DEBITS	$ 269,173	$ 633,799	$ 78,663	$ 95,062	$ 119,647	$ 130,805

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUND TYPES TRUST AND AGENCY	ACCOUNT GROUPS GENERAL FIXED ASSETS	ACCOUNT GROUPS GENERAL LONG-TERM OBLIGATIONS	COMPONENT UNITS PROPRIETARY FUND TYPES	COMPONENT UNITS PENSION TRUST FUNDS	COMPONENT UNITS HIGHER EDUCATION FUNDS
$ 800,250	$ -	$ -	$ 30,250	$ 98,717	$ 150,896
86,164	-	-	26,810	31,513	43,471
-	-	-	-	-	4,250
1	-	-	-	-	4,537
-	-	-	477	7,349	1,420
499	-	-	-	-	-
11,341	-	-	1,668	7,113	19,728
-	-	-	42	-	3,967
1,021,937	-	-	-	4,417,719	3,498
2,753	-	-	437,252	639	262
30	-	-	-	-	530
235,903	-	-	713,663	359,350	3,916
184,795	-	-	99,083	324,081	3,472
49,398	63,012	-	-	60	13,541
-	316,328	-	-	435	439,667
-	62,307	-	2,317	152	92,357
-	49,680	-	-	-	83,013
-	23,362	-	-	-	66,019
-	-	-	(1,329)	(338)	-
-	-	-	7,035	161	3,341
-	-	-	5,867	-	2,282
20,130	-	-	428	-	6,201
-	-	36,421	-	-	-
-	-	387,126	-	-	-
$ 2,413,201	$ 514,689	$ 423,547	$ 1,323,563	$ 5,246,951	$ 946,368

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STATE OF MONTANA
Combined Balance Sheet - Continued
All Fund Types, Account Groups and Discretely Presented Component Units
June 30, 1998
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
LIABILITIES/EQUITY/OTHER CREDITS	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE
Liabilities:						
Accounts Payable	$ 91,097	$ 141,199	$ 260	$ 6,218	$ 4,191	$ 4,695
Lottery Prizes Payable	-	-	-	-	3,202	-
Interfund Loans Payable (Note 13)	-	58,729	-	-	75	1,315
Advances from Other Funds (Note 13)	-	10,204	-	-	-	-
Due to Other Governments	30,654	7,357	-	-	13	3
Due to Primary Government (Note 13)	-	-	-	-	-	-
Due to Component Units (Note 13)	5,859	1,122	-	30	3	12
Due to Other Funds (Note 13)	23,321	22,236	2,702	467	9,001	1,211
Deferred Revenue	28,382	48,301	-	-	3,398	171
Lease/Installment Purchase Payable (Note 11)	-	-	-	-	1	2,903
Bonds/Notes Payable (Net) (Note 12)	-	-	-	-	63,551	5,432
Property Held in Trust	1,127	2,047	-	-	281	111
Securities Lending Liability (Note 4)	-	10,255	2,228	4,886	1,470	11,284
Compensated Absences Payable (Note 1)	-	-	-	-	719	3,005
Estimated Insurance Claims (Note 9)	-	-	-	-	1,492	22,214
Early Retirement Benefits Payable (Note 12)	-	-	-	-	-	-
Arbitrage Rebate Tax Payable	-	-	-	-	568	-
Other Liabilities	1	13	-	-	-	-
Total Liabilities	180,441	301,463	5,190	11,601	87,965	52,356
Equity/Other Credits:						
Investment in General Fixed/Plant Assets	-	-	-	-	-	-
Contributed Capital (Note 17)	-	-	-	-	4,420	7,218
Retained Earnings:						
Reserved for Debt Service	-	-	-	-	-	-
Reserved for Statutory Commitment	-	-	-	-	-	-
Unreserved	-	-	-	-	27,262	71,231
Fund Balances:						
Reserved for Encumbrances	3,462	36,650	-	331	-	-
Reserved for Inventories	2,040	24,219	-	-	-	-
Reserved for Long-Term Loans	9	44,486	37,052	-	-	-
Reserved for Long-Term Advances (Note 13)	9,931	263	-	-	-	-
Reserved for Debt Service	-	-	8,494	-	-	-
Reserved for Trusts/Endowments (Note 15)	-	18,782	-	-	-	-
Reserved for Construction	-	-	-	-	-	-
Reserved for Pool Participants	-	-	-	-	-	-
Reserved for Employee Pension Benefits	-	-	-	-	-	-
Unreserved, Designated	28,981	7,645	27,927	-	-	-
Unreserved, Undesignated	44,309	200,291	-	83,130	-	-
Total Equity/Other Credits	88,732	332,336	73,473	83,461	31,682	78,449
TOTAL LIABILITIES/EQUITY/OTHER CREDITS	$ 269,173	$ 633,799	$ 78,663	$ 95,062	$ 119,647	$ 130,805

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUND TYPES TRUST AND AGENCY	ACCOUNT GROUPS GENERAL FIXED ASSETS	ACCOUNT GROUPS GENERAL LONG-TERM OBLIGATIONS	COMPONENT UNITS PROPRIETARY FUND TYPES	COMPONENT UNITS PENSION TRUST FUND	COMPONENT UNITS HIGHER EDUCATION FUNDS
$ 20,396	$ -	$ -	$ 6,136	$ 6,057	$ 28,840
-	-	-	-	-	-
523	-	-	-	-	4,250
20	-	-	-	-	530
2,124	-	-	-	56	668
-	-	-	840	6,590	1,447
2,220	-	-	-	-	-
76,472	-	-	1,554	1,424	18,297
33	-	-	15,670	67	11,834
-	-	2,178	-	-	975
-	-	372,050	523,413	-	223,763
231,242	-	-	463	-	5,182
184,795	-	-	99,083	324,081	3,472
-	-	48,776	833	162	30,598
-	-	-	505,088	-	-
-	-	388	-	-	59
-	-	155	252	-	-
3,274	-	-	-	-	-
521,099	-	423,547	1,153,332	338,437	329,915
-	514,689	-	-	-	535,255
-	-	-	154,468	-	-
-	-	-	96,978	-	-
-	-	-	10,000	-	-
-	-	-	(91,215)	-	-
18	-	-	-	-	593
-	-	-	-	-	-
2,731	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	1,655
1,278,075	-	-	-	-	33,927
-	-	-	-	-	16,691
431,124	-	-	-	-	-
-	-	-	-	4,908,514	-
-	-	-	-	-	-
180,154	-	-	-	-	28,332
1,892,102	514,689	-	170,231	4,908,514	616,453
$ 2,413,201	$ 514,689	$ 423,547	$ 1,323,563	$ 5,246,951	$ 946,368

STATE OF MONTANA
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds
For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST
REVENUES:					
Licenses/Permits	$ 28,625	$ 88,081	$ -	$ -	$ -
Taxes					
Natural Resource	19,281	30,684	783	4,132	-
Individual Income	444,161	-	-	-	-
Corporate Income	69,725	8,204	-	-	-
Property	201,549	7,526	-	-	-
Fuel	-	176,204	-	-	-
Payroll	688	-	-	-	-
Other (Note 1)	90,686	65,214	-	2,071	-
Charges for Services/Fines/Forfeits/Settlements	20,763	105,759	1,484	292	185
Investment Earnings	18,071	8,735	5,268	1,296	18,917
Securities Lending Income	5,979	513	176	69	904
Sale of Documents/Mdse./Property	241	5,466	2,504	-	-
Rentals/Leases/Royalties	70	140	-	-	-
Contributions/Premiums	-	4,414	-	-	69,044
Grants/Contracts/Donations	1,199	9,614	-	-	754
Federal	23,271	880,483	123	-	3,938
Federal Indirect Cost Recoveries	86	1,830	-	-	-
Other Revenues	259	1,153	-	79	-
Total Revenues	924,654	1,394,020	10,338	7,939	93,742
Intrafund Revenues	(87)	(3,796)	-	-	-
Net Revenues	924,567	1,390,224	10,338	7,939	93,742
EXPENDITURES:					
Current:					
General Government	60,782	52,884	-	11,946	7,125
Public Safety/Corrections	96,053	80,823	-	444	-
Transportation	431	332,195	-	-	10
Health/Social Services	223,165	587,876	-	-	-
Education/Cultural	496,113	98,859	-	-	158
Resource Development/Recreation	14,288	75,908	-	33	535
Economic Development/Assistance	14,872	95,335	-	232	59,078
Debt Service					
Principal Retirement	920	1,049	23,429	-	20
Interest/Fiscal Charges	4,180	1,172	13,097	85	8
Capital Outlay	3,558	15,877	-	49,279	53
Securities Lending	5,802	500	173	67	883
Total Expenditures	920,164	1,342,478	36,699	62,036	67,870
Intrafund Expenditures	(87)	(3,796)	-	-	-
Net Expenditures	920,077	1,338,682	36,699	62,036	67,870
Excess of Rev. Over (Under) Expend.	4,490	51,542	(26,361)	(54,097)	25,872
OTHER FINANCING SOURCES (USES):					
Loan Proceeds	-	6,767	-	2,029	-
Bond Proceeds	522	17,463	1,326	98,197	-
Refunded Bond Proceeds	-	-	14,855	-	-
Refunded Bond Escrow Payments	-	-	(14,855)	-	-
Inception of Lease/Installment Contract	898	704	-	-	-
General Fixed Asset Sale Proceeds	168	84	-	-	-
Operating Transfers In (Note 13)	126,773	33,418	30,103	19,090	-
Transfers from Component Units (Note 13)	10,000	-	-	-	-
Operating Transfers Out (Note 13)	(5,133)	(51,371)	(3,053)	(3,125)	(388)
Operating Transfers to Component Units (Note 13)	(101,789)	(14,030)	-	-	-
Total Other Financing Sources (Uses)	31,439	(6,965)	28,376	116,191	(388)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses	35,929	44,577	2,015	62,094	25,484
FUND BALANCES - JULY 1 - as Previously Reported	41,749	291,323	66,840	22,227	127,026
Prior Period Adjustments (Note 3)	10,185	8,676	3,771	-	153,115
FUND BALANCES - July 1 - As Restated	51,934	299,999	70,611	22,227	280,141
Increase (Decrease) in Inventories	249	850	-	-	-
Residual Equity Transfers (Note 13)	620	(13,090)	847	(860)	15,340
FUND BALANCES - JUNE 30	$ 88,732	$ 332,336	$ 73,473	$ 83,461	$ 320,965

The notes to the financial statements are an integral part of this statement

STATE OF MONTANA
Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance
General and Special Revenue Fund Types
For the Fiscal Year Ended June 30, 1998
(Expressed In Thousands)

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
REVENUES:						
Licenses/Permits	$ 29,694	$ 28,625	$ (1,069)	$ 86,766	$ 88,081	$ 1,315
Taxes:						
Natural Resource	23,563	19,281	(4,282)	38,749	30,684	(8,065)
Individual Income	423,685	444,161	20,476	-	-	-
Corporate Income	70,402	69,725	(677)	10,000	8,204	(1,796)
Property	233,397	201,549	(31,848)	7,361	7,526	165
Fuel	-	-	-	180,971	176,204	(4,767)
Payroll	695	688	(7)	-	-	-
Other	91,631	90,686	(945)	59,061	65,214	6,153
Charges for Services/Fines/Forfeits	21,141	20,763	(378)	57,256	105,759	48,503
Investment Earnings	14,667	18,071	3,404	6,093	8,735	2,642
Sale of Documents/Merchandise/Property	192	241	49	4,844	5,466	622
Rentals/Leases/Royalties	94	70	(24)	120	140	20
Contributions/Premiums	-	-	-	8,824	4,414	(4,410)
Grants/Contracts/Donations	1,086	1,199	113	10,711	9,614	(1,097)
Federal	21,015	23,271	2,256	929,120	880,483	(48,637)
Federal Indirect Cost Recoveries	60	86	26	1,723	1,830	107
Other Revenues	162	259	97	956	1,153	197
Total Revenues	931,484	918,675	(12,809)	1,402,555	1,393,507	(9,048)
EXPENDITURES:						
Current:						
General Government	63,680	61,294	2,386	84,134	53,641	30,493
Public Safety/Corrections	97,552	96,215	1,337	129,888	82,281	47,607
Transportation	378	430	(52)	364,990	337,860	27,130
Health/Social Services	225,853	221,181	4,672	578,693	523,203	55,490
Education/Cultural	545,243	496,157	49,086	156,064	99,658	56,406
Resource Development/Recreation	14,968	14,660	308	120,547	73,202	47,345
Economic Development/Assistance	15,399	14,907	492	122,104	92,153	29,951
Debt Service:						
Principal Retirement	900	900	-	1,018	1,018	-
Interest/Fiscal Charges	4,194	4,194	-	1,104	1,096	8
Capital Outlay	3,980	3,243	737	26,511	14,066	12,445
Total Expenditures	972,147	913,181	58,966	1,585,053	1,278,178	306,875
Excess of Rev. Over (Under) Expend.	(40,663)	5,494	46,157	(182,498)	115,329	297,827
OTHER FINANCING SOURCES (USES):						
Loan Proceeds	-	-	-	9,643	6,767	(2,876)
Bond Proceeds	-	522	522	16,290	17,463	1,173
General Fixed Asset Sale Proceeds	100	168	68	55	84	29
Operating Transfers In	94,392	115,054	20,662	24,071	27,182	3,111
Transfers from Component Units	10,000	10,000	-	-	-	-
Operating Transfers Out	(7,116)	(5,146)	1,970	(53,919)	(32,740)	21,179
Transfers to Component Units	(101,789)	(101,789)	-	(14,030)	(14,030)	-
Total Other Financing Sources (Uses)	(4,413)	18,809	23,222	(17,890)	4,726	22,616
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (Budgetary Basis)	(45,076)	24,303	69,379	(200,388)	120,055	320,443
RECONCILIATION OF BUDGETARY/GAAP REPORTING:						
1. Adjust expenditures for encumbrances	-	(7,659)	(7,659)	-	(18,311)	(18,311)
2. Adjustments for appropriated loans/other nonbudgeted activity	-	19,108	19,108	-	(57,180)	(57,180)
3. Intrafund elimination - Transfers In	-	(87)	(87)	-	(3,796)	(3,796)
4. Intrafund elimination - Transfers Out	-	87	87	-	3,796	3,796
5. Securities Lending Income	-	5,979	5,979	-	513	513
6. Securities Lending Costs	-	(5,802)	(5,802)	-	(500)	(500)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (GAAP Basis)	(45,076)	35,929	81,005	(200,388)	44,577	244,965
UNRESERVED FUND BALANCES - JULY 1	30,145	30,315	170	172,800	176,724	3,924
Residual Equity Transfers (Note 13)	5,494	620	(4,874)	(2,371)	(13,090)	(10,719)
Prior Period Adjustments (Note 3)	-	10,185	10,185	-	8,676	8,676
Decrease (Increase):						
Encumbrances Reserve	-	(1,149)	(1,149)	-	584	584
Advances to Other Funds Reserve	-	(2,601)	(2,601)	-	-	-
Long-Term Loans Reserve	-	(9)	(9)	-	(5,552)	(5,552)
Trusts/Endowments Reserve (Note 15)	-	-	-	-	(3,983)	(3,983)
UNRESERVED FUND BALANCES - JUNE 30	$ (9,437)	$ 73,290	$ 82,727	$ (29,959)	$ 207,936	$ 237,895

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Statement of Changes in Plan Net Assets
Investment Trust Fund
For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	STIP TRUST
ADDITIONS:	
Contributions	$ 714,885
Investment Earnings	19,596
Securities Lending Income	917
Total Additions	735,398
DEDUCTIONS:	
Local Government Stip Distributions	624,474
Securities Lending Expense	894
Total Deductions	625,368
Net Increase (Decrease)	110,030
Net Assets Held in Trust for Pool Participants - July 1 - As Previously Reported	-
Prior Period Adjustments (Note 3)	321,094
Net Assets Held in Trust for Pool Participants - July 1 - As Restated	321,094
Net Assets Held in Trust for Pool Participants - June 30	$ 431,124

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances
All Proprietary Fund Types, Similar Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
OPERATING REVENUES:				
Charges for Services	$ 76,171	$ 69,189	$ 6,143	$ 434
Investment Earnings	1,541	3,297	122,544	60,212
Securities Lending Income	205	1,099	7,843	5,379
Financing Income	2,915	-	-	31,917
Contributions/Premiums	6,639	75,752	-	76,348
Grants/Contracts/Donations	-	-	1	-
Taxes	10,590	-	18,679	51,963
Rentals/Leases/Royalties	-	-	22,605	-
Other Operating Revenues	4,496	880	13	61
Total Operating Revenues	102,557	150,217	177,828	226,314
Intrafund Revenues	-	(258)	-	-
Net Operating Revenues	102,557	149,959	177,828	226,314
OPERATING EXPENSES:				
Personal Services	6,357	22,869	-	9,206
Contractual Services	5,980	10,874	-	5,498
Supplies/Materials	32,589	14,812	-	379
Benefits/Claims (Note 3)	7,008	69,920	-	57,985
Depreciation	382	8,269	-	234
Amortization	8	22	-	235
Utilities/Rent	441	5,331	-	188
Communications	1,021	10,246	-	518
Travel	173	417	1	153
Repair/Maintenance	355	5,255	-	234
Grants	-	-	10	-
Lottery Prize Payments	15,239	-	-	-
Interest Expense	2,800	350	-	34,009
Securities Lending Expense	200	1,072	7,663	5,246
Arbitrage Rebate Tax	153	-	-	93
Other Operating Expenses	2,126	1,716	5	1,604
Total Operating Expenses	74,832	151,153	7,679	115,582
Intrafund Expenses	-	(258)	-	-
Net Operating Expenses	74,832	150,895	7,679	115,582
Operating Income (Loss)	27,725	(936)	170,149	110,732
NONOPERATING REVENUES (EXPENSES):				
Gain (Loss) Sale of Fixed Assets	(237)	267	-	(39)
Increase (Decrease) Value of Livestock	(201)	-	-	-
Federal Indirect Cost Recoveries	-	2,374	-	-
Total Nonoperating Revenues (Expenses)	(438)	2,641	-	(39)
Income (Loss) Before Operating Transfers	27,287	1,705	170,149	110,693
Operating Transfers In (Note 13)	70	433	24	1
Operating Transfers Out (Note 13)	(24,524)	(647)	(122,794)	(1)
Operating Transfers to Primary Government (Note 13)	-	-	-	(10,000)
Operating Transfers to Component Units (Note 13)	-	-	(1,977)	-
Net Income (Loss)	2,833	1,491	45,402	100,693
RETAINED EARNINGS/FUND BALANCES - July 1				
As Previously Reported	27,494	75,078	1,083,276	(23,894)
Prior Period Adjustments (Note 3)	(65)	(5,338)	11,335	2,764
RETAINED EARNINGS/FUND BALANCES - July 1				
As Restated	27,429	69,740	1,094,611	(21,130)
Residual Equity Transfers (Note 13)	(3,000)	-	-	(63,800)
RETAINED EARNINGS/FUND BALANCES - JUNE 30	$ 27,262	$ 71,231	$ 1,140,013	$ 15,763

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Cash Flows
All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	PROPRIETARY FUND TYPES			COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Sales and Services	$ 83,367	$ 144,271	$ 6,054	$ 77,685
Collections of Principal and Interest on Loans	-	-	-	89,666
Cash Payments for Loans	-	-	-	(81,860)
Payments to Suppliers for Goods and Services	(45,421)	(47,604)	-	(7,818)
Payments to Employees	(6,660)	(23,485)	-	(9,385)
Grant Receipts	-	2,446	-	-
Grant Payments	-	-	(15)	-
Cash Payments for Claims	(7,174)	(69,670)	-	(73,665)
Collections of Notes Receivable	-	-	-	32
Collections of Payroll Taxes	-	-	-	51,848
Cash Payments for Prizes	(15,004)	-	-	-
Scholarship/Fellowship Payments	-	-	(5)	-
Other Operating Revenues	3,089	715	13	50
Net Cash Provided by (Used for) Operating Activities	12,197	6,673	6,047	46,553
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Payment of Principal and Interest on Bonds and Notes	(6,595)	(942)	-	(78,834)
Proceeds from Issuance of Bonds and Notes	19,622	3,848	-	51,371
Payment of Bond Issuance Costs	(263)	-	-	(687)
Collection of Taxes	10,590	-	19,640	-
Transfers to Primary Government	-	-	-	(10,000)
Transfers to Other Funds	(21,631)	(598)	(85,830)	-
Transfers to Component Units	-	-	(1,977)	-
Transfers from Other Funds	61	617	24	-
Proceeds from Interfund Loans	75	3,486	42	-
Payment of Interfund Loans	-	(2,007)	(589)	-
Residual Equity Transfers to Other Funds	(3,000)	-	-	(63,800)
Residual Equity Transfers from Other Funds	-	-	-	-
Contributed Capital Transfers from Other Funds	1	-	-	63,800
Net Cash Provided by (Used for) Noncapital Financing Activities	(1,140)	4,404	(68,690)	(38,150)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of Fixed Assets	(453)	(13,744)	-	(1,324)
Proceeds from Sale of Fixed Assets	18	4,516	-	2
Principal and Interest Payments on Bonds and Notes	(1)	(1,741)	-	-
Net Cash Used for Capital and Related Financing Activities	(436)	(10,969)	-	(1,322)
CASH FLOW FROM INVESTING ACTIVITIES:				
Purchase of Investments	(10,839)	(13,631)	(53,874)	(782,617)
Proceeds from Sales or Maturities of Investments	16,116	10,294	20,406	707,814
Proceeds from Securities Lending Transactions	219	1,126	7,877	5,360
Interest and Dividends on Investments	1,212	2,877	70,511	44,883
Payment of Securities Lending Costs	(214)	(1,100)	(7,669)	(5,238)
Collections of Principal and Interest on Loans	10,487	-	-	20
Cash Payments for Loans	(25,332)	-	-	-
Arbitrage Rebate Tax	(5)	-	-	(156)
Collection of Rents/Leases/Royalties	-	-	22,608	-
Net Cash Provided by (Used for) Investing Activities	(8,356)	(434)	59,859	(29,934)
Net Increase (Decrease) in Cash and Cash Equivalents	2,265	(326)	(2,784)	(22,853)
Cash and Cash Equivalents, July 1	17,329	17,991	53,956	53,103
CASH AND CASH EQUIVALENTS, JUNE 30	$ 19,594	$ 17,665	$ 51,172	$ 30,250

The notes to the financial statements are an integral part of this statement.

	PROPRIETARY FUND TYPES			COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating Income (Loss)	$ 27,725	$ (936)	$ 170,149	$ 110,732
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Depreciation	382	8,269	-	234
Amortization	8	22	-	235
Taxes	(10,590)	-	(18,679)	-
Interest Expense	2,800	350	-	34,009
Securities Lending Expense	200	1,072	7,663	5,246
Interest on Investments	(1,541)	(3,297)	(122,544)	(60,260)
Securities Lending Income	(205)	(1,099)	(7,843)	(5,379)
Financing Income	(2,915)	-	-	-
Federal Indirect Cost Recoveries	-	2,374	-	-
Arbitrage Rebate Tax	153	-	-	93
Rentals/Leases/Royalties	-	-	(22,605)	-
Change in Assets and Liabilities:				
Decr (Incr) in Accounts Receivable	(925)	30	-	2,281
Decr (Incr) in Due From Other Governments	-	2	-	-
Decr (Incr) in Due From Other Funds	221	(224)	(85)	218
Decr (Incr) in Due From Primary Government	-	-	-	(292)
Decr (Incr) in Due From Component Units	(76)	404	-	-
Decr (Incr) in Inventories	40	43	-	7
Decr (Incr) in Intangible Assets	(4)	-	-	-
Decr (Incr) in Long-term Loans/Notes Receivable	12	-	-	(24,025)
Incr (Decr) in Deferred Charges	-	-	-	104
Decr (Incr) in Other Assets	(68)	(47)	-	(114)
Incr (Decr) in Accounts Payable	(3,018)	2,086	(4)	462
Incr (Decr) in Lottery Prizes Payable	151	-	-	-
Incr (Decr) in Due to Other Funds	(252)	(696)	(82)	(313)
Incr (Decr) in Due to Other Governments	-	3	-	-
Incr (Decr) in Due to Primary Government	-	-	-	205
Incr (Decr) in Due to Component Units	(2)	(33)	77	-
Incr (Decr) in Non-Capital Leases Payable	-	308	-	-
Incr (Decr) in Deferred Revenue	279	(665)	-	(1,019)
Incr (Decr) in Property Held in Trust	7	90	-	(233)
Incr (Decr) in Compensated Absences Payable	14	139	-	59
Incr (Decr) in Estimated Insurance Claims	(199)	(1,522)	-	(15,697)
Net Cash Provided by (Used For) Operating Activities	$ 12,197	$ 6,673	$ 6,047	$ 46,553
SCHEDULE OF NONCASH TRANSACTIONS:				
Fixed Asset Acquisitions from Capital Leases	$ -	$ 1,600	$ -	$ -
Asset Acquisitions from Contributed Capital Transfers from Other Funds	1,143	242	-	-
Asset Disposals from Contributed Capital	-	(248)	-	-
Total Noncash Transactions	$ 1,143	$ 1,594	$ -	$ -

RECONCILIATION FOR NONEXPENDABLE TRUST:		
Cash and Cash Equivalents, June 30	$	51,172
Cash and Cash Equivalents, Expendable Trust, Investment Trust and Agency		749,078
Cash and Cash Equivalents per Combined Balance Sheet, Trust and Agency	$	800,250

STATE OF MONTANA
Combining Balance Sheet
Component Units - Proprietary Fund Types
June 30, 1998
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
ASSETS:					
Cash/Cash Equivalents	$ 3,351	$ 458	$ 17,130	$ 9,311	$ 30,250
Receivables (Net)	4,711	122	17,460	4,517	26,810
Due from Primary Government (Note 13)	-	1	6	470	477
Due from Other Funds (Note 13)	-	-	1,620	48	1,668
Inventories	-	-	42	-	42
Long-Term Loans/Notes Receivable	437,162	90	-	-	437,252
Investments (Note 4)	174,264	953	427,036	111,410	713,663
Securities Lending Collateral (Note 4)	110	305	98,072	596	99,083
Equipment	79	4	2,234	-	2,317
Accumulated Depreciation	(27)	(1)	(1,301)	-	(1,329)
Intangible Assets	91	-	6,944	-	7,035
Deferred Charges	5,867	-	-	-	5,867
Other Assets	37	1	390	-	428
TOTAL ASSETS	$ 625,645	$ 1,933	$ 569,633	$ 126,352	$ 1,323,563
LIABILITIES/FUND EQUITY:					
Liabilities:					
Accounts Payable	$ 4,810	$ 3	$ 1,317	$ 6	$ 6,136
Due to Primary Government (Note 13)	39	6	705	90	840
Due to Other Funds (Note 13)	4	-	1	1,549	1,554
Deferred Revenue	-	1	15,411	258	15,670
Bonds/Notes Payable (Net) (Note 12)	523,413	-	-	-	523,413
Property Held In Trust	1	-	462	-	463
Securities Lending Liability (Note 4)	110	305	98,072	596	99,083
Compensated Absences Payable	38	27	731	37	833
Estimated Insurance Claims (Note 9)	-	-	310,687	194,401	505,088
Arbitrage Rebate Tax Payable	252	-	-	-	252
Total Liabilities	528,667	342	427,386	196,937	1,153,332
Fund Equity:					
Contributed Capital (Note 17)	-	-	-	154,468	154,468
Retained Earnings:					
Reserved for Debt Service	96,978	-	-	-	96,978
Reserved for Statutory Commitment	-	-	10,000	-	10,000
Unreserved	-	1,591	132,247	(225,053)	(91,215)
Total Fund Equity	96,978	1,591	142,247	(70,585)	170,231
TOTAL LIABILITIES/FUND EQUITY	$ 625,645	$ 1,933	$ 569,633	$ 126,352	$ 1,323,563

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Revenues, Expenses and Changes in Retained Earnings
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
OPERATING REVENUES:					
Charges for Services	$ 80	$ 316	$ 38	$ -	$ 434
Investment Earnings	12,769	90	44,919	2,434	60,212
Securities Lending Income	5	29	5,309	36	5,379
Financing Income	31,917	-	-	-	31,917
Contributions/Premiums	-	-	76,348	-	76,348
Payroll Taxes	-	-	-	51,963	51,963
Other Operating Revenues	12	-	49	-	61
Total Operating Revenues	44,783	435	126,663	54,433	226,314
OPERATING EXPENSES:					
Personal Services	474	108	7,930	694	9,206
Contractual Services	1,989	11	3,342	156	5,498
Supplies/Materials	38	4	313	24	379
Benefits/Claims (Note 3)	-	-	54,638	3,347	57,985
Depreciation	11	1	222	-	234
Amortization	23	-	212	-	235
Utilities/Rent	38	5	134	11	188
Communications	25	4	459	30	518
Travel	46	17	84	6	153
Repair/Maintenance	51	-	166	17	234
Interest Expense	34,007	-	-	2	34,009
Securities Lending Expense	5	28	5,178	35	5,246
Arbitrage Rebate Tax	93	-	-	-	93
Other Operating Expenses	87	20	183	1,314	1,604
Total Operating Expenses	36,887	198	72,861	5,636	115,582
Operating Income (Loss)	7,896	237	53,802	48,797	110,732
NONOPERATING REVENUES (EXPENSES):					
Gain (Loss) Sale of Fixed Assets	(39)	-	-	-	(39)
Total Nonoperating Revenues (Expenses)	(39)	-	-	-	(39)
Income (Loss) Before Operating Transfers	7,857	237	53,802	48,797	110,693
Operating Transfers In	-	-	-	1	1
Operating Transfers Out	-	-	-	(1)	(1)
Operating Transfers to Primary Government	-	-	(10,000)	-	(10,000)
Net Income (Loss)	7,857	237	43,802	48,797	100,693
RETAINED EARNINGS - JULY 1 -					
As Previously Reported	89,097	1,360	159,499	(273,850)	(23,894)
Prior Period Adjustments (Note 3)	24	(6)	2,746	-	2,764
RETAINED EARNINGS - JULY 1 -					
As Restated	89,121	1,354	162,245	(273,850)	(21,130)
Residual Equity Transfers (Note 13)	-	-	(63,800)	-	(63,800)
RETAINED EARNINGS - JUNE 30	$ 96,978	$ 1,591	$ 142,247	$ (225,053)	$ 15,763

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Cash Flows
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Sales and Services	$ 46	$ 318	$ 77,321	$ -	$ 77,685
Collections of Principal and Interest on Loans	89,666	-	-	-	89,666
Cash Payments for Loans	(81,860)	-	-	-	(81,860)
Payments to Suppliers for Goods and Services	(2,261)	(62)	(3,821)	(1,674)	(7,818)
Payments to Employees	(466)	(107)	(8,022)	(790)	(9,385)
Cash Payments for Claims	-	-	(59,081)	(14,584)	(73,665)
Collection of Notes Receivable	-	-	-	32	32
Collection of Payroll Taxes	-	-	-	51,848	51,848
Other Operating Revenues	12	-	38	-	50
Net Cash Provided by (Used for) Operating Activities	5,137	149	6,435	34,832	46,553
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Payment of Principal and Interest on Bonds and Notes	(78,832)	-	-	(2)	(78,834)
Proceeds from Issuance of Bonds and Notes	51,371	-	-	-	51,371
Payment of Bond Issuance Costs	(687)	-	-	-	(687)
Transfers to Primary Government	-	-	(10,000)	-	(10,000)
Residual Equity Transfers to Other Funds	-	-	(63,800)	-	(63,800)
Residual Equity Transfers from Other Funds	-	-	-	-	-
Contributed Capital Transfers to Other Funds	-	-	-	-	-
Contributed Capital Transfers from Other Funds	-	-	-	63,800	63,800
Net Cash Provided by (Used for) Noncapital Financing Activities	(28,148)	-	(73,800)	63,798	(38,150)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of Fixed Assets	(98)	(2)	(1,224)	-	(1,324)
Proceeds from Sale of Fixed Assets	-	-	2	-	2
Net Cash Used for Capital and Related Financing Activities	(98)	(2)	(1,222)	-	(1,322)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(552,869)	(552)	(115,651)	(113,545)	(782,617)
Proceeds from Sales or Maturities of Investments	566,407	300	138,816	2,291	707,814
Proceeds from Securities Lending Transactions	5	29	5,290	36	5,360
Interest and Dividends on Investments	9,756	83	34,242	802	44,883
Payment of Securities Lending Costs	(5)	(29)	(5,169)	(35)	(5,238)
Collections of Principal and Interest on Loans	-	20	-	-	20
Arbitrage Rebate Tax	-	-	-	(156)	(156)
Net Cash Provided by (Used for) Investing Activities	23,294	(149)	57,528	(110,607)	(29,934)
Net Increase (Decrease) in Cash and Cash Equivalents	185	(2)	(11,059)	(11,977)	(22,853)
Cash and Cash Equivalents, July 1	3,166	460	28,189	21,288	53,103
Cash and Cash Equivalents, June 30	$ 3,351	$ 458	$ 17,130	$ 9,311	$ 30,250

The notes to the financial statements are an integral part of this statement.

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating Income (Loss)	$ 7,896	$ 237	$ 53,802	$ 48,797	$ 110,732
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	11	1	222	-	234
Amortization	23	-	212	-	235
Interest Expense	34,007	-	-	2	34,009
Securities Lending Expense	5	28	5,178	35	5,246
Interest on Investments	(12,769)	(90)	(44,967)	(2,434)	(60,260)
Securities Lending Income	(5)	(29)	(5,309)	(36)	(5,379)
Arbitrage Rebate Tax	93	-	-	-	93
Change in Assets and Liabilities:					
Decr (Incr) in Accounts Receivable	-	2	1,995	284	2,281
Decr (Incr) in Due From Other Funds	1	-	225	(8)	218
Decr (Incr) in Due From Primary Government	-	(1)	8	(299)	(292)
Decr (Incr) in Inventories	-	-	7	-	7
Decr (Incr) in Long-Term Loans/Notes Receivable	(24,025)	-	-	-	(24,025)
Incr (Decr) in Deferred Charges	104	-	-	-	104
Decr (Incr) in Other Assets	(223)	(1)	110	-	(114)
Incr (Decr) in Accounts Payable	24	-	447	(9)	462
Incr (Decr) in Due to Other Funds	(43)	-	-	(270)	(313)
Incr (Decr) in Due to Primary Government	41	(2)	85	81	205
Incr (Decr) in Deferred Revenue	-	-	(977)	(42)	(1,019)
Incr (Decr) in Property Held in Trust	-	-	(233)	-	(233)
Incr (Decr) in Compensated Absences Payable	(3)	4	50	8	59
Incr (Decr) in Estimated Insurance Claims	-	-	(4,420)	(11,277)	(15,697)
Net Cash Provided by (Used for) Operating Activities	$ 5,137	$ 149	$ 6,435	$ 34,832	$ 46,553

STATE OF MONTANA
Combining Statement of Plan Net Assets
Component Units - Pension Trust Funds
June 30, 1998
(Expressed in Thousands)

		PUBLIC EMPLOYEES RETIREMENT DIVISION		
	TRS	PERS	MUNICIPAL POLICE	FIRE-FIGHTERS UNIFIED
ASSETS:				
Cash/Cash Equivalents (Note 4)	$ 35,044	$ 49,623	$ 2,543	$ 3,363
Receivables (Net):				
Employer Contributions	5,342	1,020	167	90
Employee Contributions	5,103	1,900	96	50
Interest	7,171	8,686	361	339
Other Receivables	2	13	1	6
Due from Primary Government (Note 13)	26	1,764	5,265	-
Due from Other Funds (Note 13)	532	1,768	-	4,796
Long-Term Notes/Loans Receivable	-	639	-	-
Investments, at Fair Value:				
Equity in Pooled Investments (Note 4)	1,802,423	2,187,721	97,914	92,533
Other Investments (Note 4)	159,858	189,687	2,179	1,634
Securities Lending Collateral (Note 4)	131,322	160,335	7,288	6,830
Land	35	25	-	-
Buildings/Improvements	158	277	-	-
Equipment	137	15	-	-
Accumulated Depreciation	(167)	(171)	-	-
Intangible Assets	160	1	-	-
TOTAL ASSETS	$ 2,147,146	$ 2,603,303	$ 115,814	$ 109,641
LIABILITIES:				
Accounts Payable	$ 34	$ 4,901	$ 400	$ 337
Due to Primary Government (Note 13)	6,530	60	-	-
Due to Other Governments	56	-	-	-
Due to Other Funds (Note 13)	-	1,288	34	27
Deferred Revenue	-	45	3	9
Securities Lending Liability (Note 4)	131,322	160,335	7,288	6,830
Compensated Absences Payable (Note 1)	46	116	-	-
TOTAL LIABILITIES	137,988	166,745	7,725	7,203
Fund Balances Reserved for Employees' Pension Benefits	$ 2,009,158	$ 2,436,558	$ 108,089	$ 102,438

The notes to the financial statements are an integral part of this statement.

SHERIFFS	HIGHWAY PATROL	JUDGES	GAME WARDENS	VOLUNTEER FIRE-FIGHTERS	TOTALS
$ 3,604	$ 1,573	$ 797	$ 950	$ 1,220	$ 98,717
132	-	-	-	-	6,751
138	-	-	-	-	7,287
366	244	129	93	61	17,450
1	-	-	2	-	25
8	190	40	56	-	7,349
2	-	-	15	-	7,113
-	-	-	-	-	639
99,164	65,036	34,431	25,104	13,393	4,417,719
2,179	1,634	1,089	545	545	359,350
7,470	4,965	2,649	1,892	1,330	324,081
-	-	-	-	-	60
-	-	-	-	-	435
-	-	-	-	-	152
-	-	-	-	-	(338)
-	-	-	-	-	161
$ 113,064	$ 73,642	$ 39,135	$ 28,657	$ 16,549	$ 5,246,951
$ 83	$ 156	$ 81	$ 50	$ 15	$ 6,057
-	-	-	-	-	6,590
-	-	-	-	-	56
24	13	3	12	23	1,424
3	1	-	6	-	67
7,470	4,965	2,649	1,892	1,330	324,081
-	-	-	-	-	162
7,580	5,135	2,733	1,960	1,368	338,437
$ 105,484	$ 68,507	$ 36,402	$ 26,697	$ 15,181	$ 4,908,514

STATE OF MONTANA
Combining Statement of Changes in Plan Net Assets
Component Units - Pension Trust Funds
For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

		PUBLIC EMPLOYEES RETIREMENT DIVISION			
	TRS	PERS	MUNICIPAL POLICE	FIRE-FIGHTERS UNIFIED
ADDITIONS:				
Contributions/Premiums:				
Employer	$ 44,476	$ 45,245	$ 2,635	$ 2,145
Employee	41,938	48,527	1,960	1,560
Other Contributions	200	354	5,266	4,793
Net Investment Earnings:				
Investment Earnings	288,213	348,553	14,921	14,168
Administrative Investment Expense	(1,409)	(1,709)	(47)	(39)
Securities Lending Income	9,305	11,315	508	479
Securities Lending Expense	(8,973)	(10,911)	(491)	(463)
Other Additions	18	61	-	-
Total Additions	373,768	441,435	24,752	22,643
DEDUCTIONS:				
Benefits	94,206	87,379	7,697	6,495
Refunds	4,826	12,136	319	24
Administrative Expenses:				
Personal Services	430	622	-	-
Contractual Services	185	368	-	-
Supplies/Materials	71	55	-	-
Depreciation	4	13	-	-
Amortization	49	1	-	-
Utilities/Rent	26	68	-	-
Communications	34	56	-	-
Travel	29	18	-	-
Repair/Maintenance	25	9	-	-
Other Operating Expenses	29	23	33	27
Local Assistance	-	-	-	-
Total Deductions	99,914	100,748	8,049	6,546
Net Increase (Decrease)	273,854	340,687	16,703	16,097
Fund Balances Reserved for Employees' Pension Benefits - July 1 - As Previously Reported	1,735,370	2,095,963	91,386	86,341
Prior Period Adjustments	(66)	(92)	-	-
Fund Balances Reserved for Employees' Pension Benefits - July 1 - As Restated	1,735,304	2,095,871	91,386	86,341
Fund Balances Reserved for Employees' Pension Benefits - June 30	$ 2,009,158	$ 2,436,558	$ 108,089	$ 102,438

The notes to the financial statements are an integral part of this statement.

SHERIFFS	HIGHWAY PATROL	JUDGES	GAME WARDENS	VOLUNTEER FIRE-FIGHTERS	TOTALS
$ 1,969	$ 2,677	$ 843	$ 818	$ -	$ 100,808
2,088	645	229	776	-	97,723
74	7	-	14	928	11,636
15,112	10,036	5,300	3,855	1,883	702,041
(48)	(34)	(21)	(12)	(9)	(3,328)
515	344	183	131	83	22,863
(498)	(333)	(177)	(127)	(81)	(22,054)
-	-	-	-	-	79
19,212	13,342	6,357	5,455	2,804	909,768
1,743	3,771	1,304	1,122	773	204,490
203	179	7	34	-	17,728
-	-	-	-	-	1,052
-	-	-	-	-	553
-	-	-	-	-	126
-	-	-	-	-	17
-	-	-	-	-	50
-	-	-	-	-	94
-	-	-	-	-	90
-	-	-	-	-	47
-	-	-	-	-	34
24	13	3	12	23	187
-	-	-	-	13	13
1,970	3,963	1,314	1,168	809	224,481
17,242	9,379	5,043	4,287	1,995	685,287
88,242	59,128	31,359	22,410	13,186	4,223,385
-	-	-	-	-	(158)
88,242	59,128	31,359	22,410	13,186	4,223,227
$ 105,484	$ 68,507	$ 36,402	$ 26,697	$ 15,181	$ 4,908,514

STATE OF MONTANA
Combining Balance Sheet
Component Units - All Higher Education Funds
June 30, 1998
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
ASSETS:				
Cash/Cash Equivalents	$ 13,593	$ 15,950	$ 13,008	$ 5,259
Receivables (Net)	3,825	779	771	10,338
Interfund Loans Receivable (Note 13)	600	3,420	-	80
Due from Other Governments	1	-	-	4,530
Due from Primary Government (Note 13)	84	182	49	783
Due from Other Funds (Note 13)	4,989	7,529	451	759
Inventories	77	1,627	2,263	-
Equity in Pooled Investments (Note 4)	-	-	-	-
Long-Term Notes/Loans Receivable	-	-	-	-
Advances to Other Funds	-	5	5	-
Investments (Note 4)	-	42	-	61
Securities Lending Collateral (Note 4)	118	533	750	187
Land	-	-	-	-
Buildings/Improvements	-	-	-	-
Equipment	-	-	-	-
Other Fixed Assets	-	-	-	-
Construction in Progress	-	-	-	-
Intangible Assets	-	-	-	-
Deferred Charges	-	-	-	-
Other Assets	2,806	2,005	634	468
TOTAL ASSETS	$ 26,093	$ 32,072	$ 17,931	$ 22,465
LIABILITIES/FUND BALANCES:				
Liabilities:				
Accounts Payable	$ 11,014	$ 5,368	$ 1,812	$ 4,220
Interfund Loans Payable (Note 13)	230	-	155	3,600
Advances from Other Funds	-	17	134	5
Due to Other Governments	340	13	-	79
Due to Primary Government (Note 13)	426	430	16	38
Due to Other Funds (Note 13)	5,864	1,901	1,154	6,366
Deferred Revenue	6,803	789	787	3,116
Lease/Installment Purchase Payable (Note 11)	-	-	-	-
Bonds/Notes Payable (Note 12)	-	75	-	-
Property Held in Trust	52	62	374	126
Securities Lending Liability (Note 4)	118	533	750	187
Early Retirement Benefits Payable (Note 12)	56	-	3	-
Compensated Absences Payable (Note 1)	23,359	5,088	1,980	171
Total Liabilities	48,262	14,276	7,165	17,908
Fund Balances:				
Net Investment in Plant	-	-	-	-
Reserved For:				
Encumbrances	558	15	10	10
Debt Service	-	-	-	-
Student Loans/Endowments	-	-	-	-
Construction	-	-	-	-
Unreserved	(22,727)	17,781	10,756	4,547
Total Fund Balances	(22,169)	17,796	10,766	4,557
TOTAL LIABILITIES/FUND BALANCES	$ 26,093	$ 32,072	$ 17,931	$ 22,465

The notes to the financial statements are an integral part of this statement.

	FIDUCIARY FUNDS			PLANT FUNDS				
STUDENT LOANS	ENDOWMENTS	AGENCY	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	TOTALS
$ 2,624	$ 2,375	$ 2,710	$ 73,191	$ 19,596	$ 2,590	$ -	$ 150,896
27,010	12	143	367	122	104	-	43,471
-	-	-	150	-	-	-	4,250
6	-	-	-	-	-	-	4,537
2	-	5	155	-	160	-	1,420
21	7	4,491	394	252	835	-	19,728
-	-	-	-	-	-	-	3,967
-	3,210	288	-	-	-	-	3,498
262	-	-	-	-	-	-	262
-	-	-	42	239	239	-	530
-	801	-	-	3,012	-	-	3,916
125	406	133	212	881	127	-	3,472
-	-	-	-	-	-	13,541	13,541
-	-	-	-	-	-	439,667	439,667
-	-	-	-	-	-	92,357	92,357
-	-	-	-	-	-	83,013	83,013
-	-	-	37,318	3,137	-	25,564	66,019
-	-	-	-	-	-	3,341	3,341
-	-	-	-	-	2,282	-	2,282
-	-	252	36	-	-	-	6,201
$ 30,050	$ 6,811	$ 8,022	$ 111,865	$ 27,239	$ 6,337	$ 657,483	946,368
$ 3	$ -	$ 649	$ 3,506	$ 431	$ 1,837	$ -	$ 28,840
-	-	-	265	-	-	-	4,250
-	-	-	-	247	-	127	530
-	-	236	-	-	-	-	668
-	-	480	33	23	1	-	1,447
7	40	1,956	637	268	104	-	18,297
-	-	-	101	123	115	-	11,834
-	-	-	-	-	-	975	975
-	-	-	94,930	5,134	2,498	121,126	223,763
-	-	4,568	-	-	-	-	5,182
125	406	133	212	881	127	-	3,472
-	-	-	-	-	-	-	59
-	-	-	-	-	-	-	30,598
135	446	8,022	99,684	7,107	4,682	122,228	329,915
-	-	-	-	-	-	535,255	535,255
-	-	-	-	-	-	-	593
-	-	-	-	-	1,655	-	1,655
28,504	5,423	-	-	-	-	-	33,927
-	-	-	15,246	1,445	-	-	16,691
1,411	942	-	(3,065)	18,687	-	-	28,332
29,915	6,365	-	12,181	20,132	1,655	535,255	616,453
$ 30,050	$ 6,811	$ 8,022	$ 111,865	$ 27,239	$ 6,337	$ 657,483	$ 946,368

STATE OF MONTANA
Statement of Changes in Fund Balance
Component Units - All Higher Education Funds
For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES/OTHER ADDITIONS:				
Tuition/Fees	$ 96,346	$ 10,247	$ 9,273	$ -
Federal Grants/Contracts	4,009	24	28	110,087
State Grants/Contracts	-	496	-	7,531
Local Grants/Contracts	-	-	1	2,063
Private Gifts/Grants/Donations	-	1,083	18	17,612
Endowment Income	-	-	-	170
Sales/Services-Educational Activities	935	2,644	16	151
Sales/Services-Designated/Auxiliary Enterprises	2	24,106	52,073	5
Indirect Costs Recovered	51	9,839	-	-
Investment Earnings	1,796	475	1,059	237
Securities Lending Income	40	8	21	5
Acquisition of Long-Lived Assets	-	-	-	-
Retirement of Indebtedness	-	-	-	-
Other Revenues/Additions	435	3,381	950	453
Total Revenues/Other Additions	103,614	52,303	63,439	138,314
Intrafund Revenues/Other Additions	-	-	-	(1,304)
Net Revenues/Other Additions	103,614	52,303	63,439	137,010
EXPENDITURES/OTHER DEDUCTIONS:				
Instruction	108,809	5,677	-	5,379
Research	12,496	9,720	-	41,508
Public Service	6,907	5,167	-	14,826
Academic Support	18,976	9,146	-	2,054
Student Services	16,783	13,478	-	3,541
Institutional Support	17,906	1,432	-	412
Independent Operations	1,844	201	-	-
Scholarships/Fellowships	8,386	393	-	56,246
Auxiliary Enterprises	-	18	51,885	155
Operation/Maintenance of Plant	21,204	700	-	85
Expended for Plant	-	-	-	-
Debt Services	73	278	83	33
Capital Outlay	5,079	3,208	226	6,797
Securities Lending	39	8	20	5
Disposal of Long-Lived Assets	-	-	-	-
Debt Incurred	-	-	-	-
Other Expenditures/Deductions	714	194	72	37
Total Expenditures/Other Deductions	219,216	49,620	52,286	131,078
Intrafund Expenditures/Other Deductions	-	-	-	(1,304)
Net Expenditures/Other Deductions	219,216	49,620	52,286	129,774
TRANSFERS IN (OUT)/OTHER ADDITIONS (DEDUCTIONS):				
Transfers from State General Fund	101,773	-	-	-
Millage Transfers	14,030	-	-	-
Mandatory Transfers	573	(238)	(8,574)	3
Nonmandatory Transfers	(1,171)	(846)	(2,070)	(6,273)
Transfers from Primary Government	-	-	239	-
Total Transfers In (Out) (Note 13)	115,205	(1,084)	(10,405)	(6,270)
Move Equity to Investment in Plant	-	-	-	-
Loan Proceeds	-	-	-	-
Bond Proceeds	-	-	-	-
Total Transfers In (Out)/Other Additions (Deductions)	115,205	(1,084)	(10,405)	(6,270)
Net Increase (Decrease) in Fund Balances	(397)	1,599	748	966
FUND BALANCES - July 1 - As Previously Reported	(22,235)	16,187	10,018	3,465
Prior Period Adjustments (Note 3)	463	-	-	136
FUND BALANCES - July 1 - As Restated	(21,772)	16,187	10,018	3,601
Residual Equity Transfers (Note 13)	-	10	-	(10)
FUND BALANCES - June 30	$ (22,169)	$ 17,796	$ 10,766	$ 4,557

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS			PLANT FUNDS		
STUDENT LOANS	ENDOWMENTS	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
$ -	$ -	$ 2,723	$ 1,292	$ 3,951	$ -
910	-	817	-	23	-
157	-	-	-	-	-
-	-	-	-	-	-
-	24	595	3	-	-
-	-	-	-	-	-
-	-	-	15	-	-
2	-	91	60	300	-
-	-	-	-	-	-
386	382	4,049	977	622	-
2	-	5	19	6	-
-	-	-	-	-	106,110
-	-	-	-	-	6,173
525	-	2,047	148	63	-
1,982	406	10,327	2,514	4,965	112,283
-	-	-	-	(19)	-
1,982	406	10,327	2,514	4,946	112,283
-	-	86	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
44	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	1,800	5,459	69	-
-	-	1,320	90	16,198	-
-	-	4,028	2,172	-	-
2	-	5	18	6	-
-	-	-	-	-	88,724
-	-	-	-	-	1,665
376	-	-	-	-	-
422	-	7,239	7,739	16,273	90,389
-	-	-	-	(19)	-
422	-	7,239	7,739	16,254	90,389
-	-	-	16	-	-
-	-	-	-	-	-
-	-	(4,190)	1,293	11,821	-
(5)	21	7,595	5,879	(2,693)	-
-	-	792	22	924	-
(5)	21	4,197	7,210	10,052	-
-	-	(22,615)	(2,021)	431	(24,456)
-	-	184	-	-	-
-	-	540	3,200	425	-
(5)	21	(17,694)	8,389	10,908	(24,456)
1,555	427	(14,606)	3,164	(400)	(2,562)
28,360	5,649	28,047	16,966	2,130	537,817
-	289	(1,260)	2	(75)	-
28,360	5,938	26,787	16,968	2,055	537,817
-	-	-	-	-	-
$ 29,915	$ 6,365	$ 12,181	$ 20,132	$ 1,655	$ 535,255

STATE OF MONTANA
Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes
Component Units - Higher Education Fund Type
For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES:				
Tuition/Fees	$ 96,346	$ 10,247	$ 9,273	$ -
Federal Grants/Contracts	4,009	24	28	104,226
State Grants/Contracts	-	496	-	7,169
Local Grants/Contracts	-	-	1	1,991
Private Gifts/Grants/Donations	-	1,083	18	16,671
Endowment Income	-	-	-	170
Sales/Services-Educational Activities	935	2,644	16	151
Sales/Services-Designated/Auxiliary Enterprises	2	24,106	52,073	5
Indirect Costs Recovered	51	9,839	-	-
Investment Earnings	1,796	475	1,059	237
Securities Lending Income	40	8	21	5
Other Revenues	435	3,381	950	453
Total Revenues	103,614	52,303	63,439	131,078
Intrafund Revenues	-	-	-	(1,304)
Net Revenues	103,614	52,303	63,439	129,774
EXPENDITURES:				
Educational and General:				
Instruction	108,809	5,677	-	5,379
Research	12,496	9,720	-	41,508
Public Service	6,907	5,167	-	14,826
Academic Support	18,976	9,146	-	2,054
Student Services	16,783	13,478	-	3,541
Institutional Support	17,906	1,432	-	412
Scholarships/Fellowships	8,386	393	-	56,246
Operation/Maintenance of Plant	21,204	700	-	85
Other Expenditures	714	194	72	37
Total Educational and General Expenditures	212,181	45,907	72	124,088
Intrafund Expenditures	-	-	-	(1,304)
Net Educational and General Expenditures	212,181	45,907	72	122,784
Auxiliary Enterprises	-	18	51,885	155
Independent Operations	1,844	201	-	-
Debt Services	73	278	83	33
Capital Outlay	5,079	3,208	226	6,797
Securities Lending	39	8	20	5
Total Expenditures	219,216	49,620	52,286	129,774
TRANSFERS IN (OUT):				
Transfers from State General Fund	101,773	-	-	-
Millage Transfers	14,030	-	-	-
Mandatory Transfers	573	(238)	(8,574)	3
Nonmandatory Transfers	(1,171)	(846)	(2,070)	(6,273)
Transfers from Primary Government	-	-	239	-
Total Transfers In (Out) (Note 13)	115,205	(1,084)	(10,405)	(6,270)
OTHER ADDITIONS(DEDUCTIONS):				
Excess of Restricted Receipts Over Transfers to Revenue	-	-	-	7,236
Total Other Additons (Deductions)	-	-	-	7,236
Net Increase (Decrease) in Fund Balances	$ (397)	$ 1,599	$ 748	$ 966

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of the Higher Education Funds have been prepared in conformity with GAAP for colleges and universities as prescribed by the American Institute of Certified Public Accountants.

A. Reporting Entity - For financial reporting purposes, the State of Montana has included all funds and account groups which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discrete Component Units
These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The Component Units columns of the combined financial statements include the financial data of these entities:

Housing Authority (Proprietary Fund Type) - This Authority is a quasi-judicial board, consisting of seven members appointed by the Governor, created in 1975 to facilitate the availability of decent, safe and sanitary housing to persons and families of lower income. The Board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $975,000,000. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited annually by the Legislative Auditor. Its report is issued under separate cover and available at 836 Front Street, Helena, MT 59620.

Health Facilities Authority (Proprietary Fund Type) - This Authority is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. Its purpose is to contain future health care costs by offering debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions for purchases of capital equipment and buildings. The Board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited by the Legislative Auditor every two years. Its report is issued under separate cover and available at 555 Fuller Avenue, Helena, MT 59620.

State Compensation Insurance Fund (New and Old) (Proprietary Fund Type) - The Fund is a quasi-governmental corporation governed by a five member board appointed by the Governor. The Fund provides workers' compensation insurance. The fund consists of two separate entities, the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990, and is financed by a .5 percent tax on each employer as well as a .2 percent tax on employee wages and distributive income of sole proprietors and subchapter S shareholders. Administrative operations and budgets are reviewed by the Governor and the Legislature. The Fund is audited annually by the Legislative Auditor. Its report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Teachers' Retirement System (Pension Trust Fund) - This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers' Retirement Division are paid from interest earnings of the fund. The system is funded from employer and employee contributions and interest earnings. The system is audited annually by the Legislative Auditor. Its report is issued under separate cover and is available at 1500 East 6th Avenue, Helena, MT 59620.

Public Employees' Retirement Division (Pension Trust Funds) - The retirement division is a legally separate entity with a board appointed by the Governor. The division administers eight separate retirement systems for the purpose of providing retirement, disability, death and lump sum payments to each system's members. These include the Public Employees', the Municipal Police Officers', the Game Wardens' and Peace Officers', the Sheriffs', the Judges', the Highway Patrol Officers' and the Firefighters' Unified Retirement Systems as well as the Volunteer Firefighters' Compensation Act.

The Public Employees' Retirement System (PERS) is funded from employer and employee contributions and interest earnings. The PERS also accounts for the administrative costs, paid from investment earnings, of the division. The Municipal Police Officers' Retirement System is funded from member, State and city contributions. The Game Wardens' and Peace Officers' Retirement System is funded by employer and employee contributions as well as fines and forfeitures collected from fish and wildlife violations. The Sheriffs' Retirement System is funded by member and county contributions. The Judges' Retirement System is funded by member and State contributions as well as a percentage of

court fees collected. The Highway Patrol Officers' Retirement System is funded by member and State contributions. The Firefighters' Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters' Retirement System is funded by contributions by the State of a percentage of fire insurance premium taxes collected.

The division is audited annually by the Legislative Audit Division. Its report is issued under separate cover and is available at 1712 Ninth Avenue, Helena, MT 59620.

Universities and Colleges (Higher Education Funds) - The State Board of Regents has responsibility for the following institutions: University of Montana-Missoula and the units under it including Montana Tech of the University of Montana, Western Montana College of the University of Montana and the Helena College of Technology; and Montana State University-Bozeman and the units under it including Montana State University-Billings and Montana State University-Northern. All units are funded through State appropriations, tuition, federal grants, and private donations and grants. The units are audited by the Legislative Auditor every two years and their reports are issued under separate cover. The reports are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 2500 Broadway, Helena, MT 59620.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation, and (3) private foundations supporting public education, over which the State exercises neither financial nor administrative control (see Note 18). Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund.

B. Fund Structure - The State uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The financial activities of the State of Montana are classified into fund categories and account groups as described below:

GOVERNMENTAL FUNDS
General Fund - To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes (other than expendable trusts or major capital projects).

Debt Service Funds - To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds - To account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

PROPRIETARY FUNDS
Enterprise Funds - To account for operations (1) financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs primarily through user charges; or (2) where the legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Internal Service Funds - To account for the financing of goods and services provided by one department or agency to other departments, agencies or other governmental entities on a cost-reimbursement basis.

FIDUCIARY FUNDS
Trust and Agency Funds - To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. These include: (1) Expendable Trust Funds; (2) Nonexpendable Trust Funds; (3) Pension Trust Funds; (4) Agency Funds, and (5) Investment Trust Funds.

ACCOUNT GROUPS
General Fixed Assets Account Group - To account for all fixed assets of the State, except those accounted for in the Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

General Long-Term Obligations Account Group - To account for all long-term obligations of the State, except those accounted for in Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

HIGHER EDUCATION (UNIVERSITY AND COLLEGE) FUNDS
Current Funds
Unrestricted
General Operating - To account for the portion of financial resources that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the legislature.

Designated - To account for those resources associated with general operations which are separately classified in order to accumulate costs recharged to other funds and to identify special activities of educational departments which are supported by supplemental assessments and the receipt and disposition of special supply and facility fees which are approved for collection beyond normal course fees.

Auxiliary - To account for those financial resources devoted to providing essential on-campus services primarily to students, faculty or staff where a fee relating to the service is charged.

Restricted - To account for the portion of financial resources that can be expended only for purposes imposed by sources external to the Board of Regents and the legislature.

Fiduciary Funds

Student Loans - To account for monies which may be loaned to students, faculty or staff for purposes related to education, organized research or public services by the higher education units.

Endowments - To account for monies where the principal is available for investment. Investment earnings are to be transferred to (or recorded directly in) appropriate operating funds pursuant to prevailing administrative requirements.

Agency - To account for monies where the State acts in the capacity of a custodian or fiscal agent for individual students, faculty, staff or qualified organizations.

Plant Funds

Unexpended - To account for unexpended resources derived from various sources which are used to finance the acquisition/construction of plant assets and the associated liabilities.

Renewal and Replacement - To account for resources used to provide for the renewal and replacement of plant fund assets as distinguished from additions and improvements.

Retirement of Indebtedness - To account for resources accumulated for interest and principal payments and other debt service charges, including contributions to reserves, relating to plant fund indebtedness.

Investment in Plant - To account for all long-lived assets in the service of the higher education unit as well as all associated liabilities.

C. Basis of Accounting - The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed in the Governmental Funds, Expendable Trust Funds and in the Agency Funds for the purpose of asset and liability recognition. Under the modified accrual basis, revenues are susceptible to accrual and recognized when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures incurred. Intergovernmental revenues received but not earned are recorded as deferred revenues. All other revenue including taxes on coal sales, gas and oil production, individual income and other self-assessed taxes is considered available if due within 60 days of fiscal year-end. Based on historical analysis, a liability has been recognized for collected withholding taxes to be refunded in fiscal year 1999. Expenditures are recognized when the related fund liability is incurred, with the following exceptions:

(1) principal and interest on long-term debt is recognized when due;
(2) prepayments are accounted for as expenditures in the period of acquisition; and
(3) inventory items are considered expenditures when purchased.

All Proprietary, Pension Trust, Investment Trust and Nonexpendable Trust Funds are accounted for on an economic resources measurement focus. This means all assets and liabilities associated with these activities are included on their balance sheets. Operating statements for these funds present increases (revenues) and decreases (expenses) in net total assets.

Proprietary, Pension Trust, Investment Trust, Nonexpendable Trust and Higher Education Funds are maintained and reported on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. In Higher Education Funds, depreciation expense related to plant fund assets is not recorded; summer session student tuition and fee revenues and expenditures are deferred at June 30 and recorded as revenue and expenditures in the succeeding fiscal year. Unbilled receivables of Proprietary and Higher Education Funds are recognized as revenue.

Significant intrafund transactions and balances have been eliminated.

D. Proprietary Activity Accounting and Financial Reporting - Activities accounted for in the state's proprietary, nonexpendable trust and pension trust funds and proprietary type component units follow GAAP prescribed by the GASB and all Financial Accounting Standards Board's standards issued on or before November 30, 1989. Subsequent to this date, the State accounts for these activities as prescribed by the GASB.

E. Cash/Cash Equivalents - For all funds, except the Housing Authority in the Component Unit Proprietary Funds, cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit (See Note 4).

F. Receivables - This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. The allowance for uncollectible taxes at June 30, 1998, is $11.765 million.

G. Inventories - Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental and Expendable Trust Funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reserve of fund balance, indicating they do not constitute "available spendable resources." An exception is the food stamp inventory balance in the special revenue fund which is offset by deferred revenue.

Proprietary, Pension Trust, Nonexpendable Trust, Investment Trust and Higher Education Funds report using the "consumption method," meaning inventories are expensed as used.

H. Investments - In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule", the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the balance sheet. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 4 on Cash/Cash Equivalents and Investments).

I. Equity in Pooled Investments - The Montana Board of Investments manages the State's unified investment program which includes four internal investment pools. Participation in the pools is limited to expendable trust funds, nonexpendable trust funds, pension trust funds, the Deferred Compensation plan and higher education endowment and trust funds. The participants' investments in the pools are reported at fair value in the balance sheet within the individual funds. (See Note 4 on Cash/Cash Equivalents and Investments).

J. Fixed Assets - Fixed asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure fixed assets and interest expenditures for general fixed assets are not capitalized. Infrastructure assets of primary government and component unit proprietary activities are capitalized. Interest incurred during the construction of fixed assets for proprietary funds and higher education units is capitalized.

Fixed assets are not depreciated in the General Fixed Assets Account Group. Purchases of such assets are recorded as expenditures in the appropriate governmental fund. Fixed assets in Proprietary, Nonexpendable Trust and Pension Trust Funds are accounted for within their respective funds and are depreciated. Expendable Trust Funds do not report fixed assets within their funds because the assets are purchased by other funds. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 20 years for improvements and 3 to 10 years for equipment. Fixed assets and intangible assets for Higher Education units are accounted for in the Investment in Plant Fund and are not depreciated.

The capitalization threshold for recording fixed assets is $5,000. Purchases under this threshold are recorded as expenditures/expenses in the current period.

K. Deferred Revenue - Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the State has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

L. Long-Term Obligations - Long-term obligations expected to be financed from governmental funds are accounted for in the general long-term debt account group. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

M. Capital Leases - A capital lease is generally defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases" as one which transfers benefits and risks of ownership to the lessee. Leases meeting the criteria of a capital lease as defined are recorded at inception as expenditures and other financing sources in governmental fund types and as assets and liabilities in the General Fixed Assets and General Long-Term Debt Account Groups, respectively, at the present value of the future minimum lease payments, using the interest rates stated in the leases.

N. Bond Discounts/Premiums/Issuance Costs - In governmental funds, bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond proceeds are reported as an other financing source net of any premium or discount. Issuance costs are reported as debt service expenditures whether or not they are withheld from the net bond proceeds. In proprietary fund types, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount while issuance costs are reported as deferred charges.

O. Compensated Absences - Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. For fiscal year 1998, 967 hours were contributed to the sick leave pool and 1,166 hours were withdrawn leaving a balance of 4,555 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave of Proprietary and Pension Trust Funds is recorded as an expense and liability of those funds; for higher education the expense and liability is recorded in the current unrestricted funds as the benefits accrue to employees. The liability amount recorded in the General Long-Term Obligations Account Group is not expected to be liquidated with expendable financial resources, thus no expenditure or liability is reported in the governmental funds. Upon retirement or termination, an employee is paid for 100 percent of unused vacation leave and 25 percent of unused sick leave.

As of June 30, 1998, the State's liability for unused vacation and sick leave for Higher Education Funds was $30,598,000. The leave liabilities for the remaining agencies at June 30, 1998, were $53,495,000, an increase of $1,702,000 over the June 30, 1997, leave liability of $51,793,000. The following table reflects the change (in thousands):

	Balance July 1, 1997	Leave Earned	Leave Used	Balance June 30, 1998
PRIMARY GOVERNMENT				
Governmental Fund Types and Similar Trust Funds	$ 47,310	$ 27,608	$ 26,142	$ 48,776
Proprietary Fund Types and Similar Trust Funds	3,675	2,082	2,033	3,724
Total	$ 50,985	$ 29,690	$ 28,175	$ 52,500
COMPONENT UNITS				
Proprietary Fund Types and Similar Trust Funds	808	855	668	995
Total Non-Higher Education Funds	$ 51,793	$ 30,545	$ 28,843	$ 53,495

P. Encumbrances - The State utilizes encumbrance accounting to record purchase orders, contracts and other commitments for the expenditure of monies to assure effective budgetary control and accountability. Encumbrances outstanding at year end represent the estimated amount of expenditures likely to result if orders for goods and services are completed. In governmental funds, encumbrances outstanding at year end are reported as reservations of fund balances since they do not represent expenditures or liabilities.

Q. Advances to Other Funds - Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund in the balance sheet account "Advance From Other Funds."

R. Fund Equity - Contributed capital is recorded in proprietary funds that have received capital from other funds. Reservations represent those portions of fund equity or retained earnings not appropriated for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. Undesignated fund balances indicate that portion of fund equity that is available for budgeting in future years subject to working capital requirements.

S. Property Taxes - Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due. The State recognizes property tax revenues as available if they are collectible within 60 days after fiscal year-end. Material delinquent and total uncollected current year property taxes receivable are recorded in Receivables (Net of Uncollectibles).

Personal property tax levies are set each August and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due.

Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

T. Other Taxes - On the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for All Governmental Fund Types and Expendable Trust Funds, the revenue category "Other Taxes" consists of the following taxes (in thousands):

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Video Gaming	$12,256	$24,826	$ -	$ 37,082
Insurance Premium	33,763	-	-	33,763
University System Millage	1,142	14,388	-	15,530
Cigarette/Tobacco	11,323	1,652	2,071	15,046
Inheritance/Estate	15,727	-	-	15,727
Accommodations	105	9,903	-	10,008
Alcoholic Beverage	1,292	3,641	-	4,933
Electrical Energy	4,402	-	-	4,402
Freight Line	2,054	-	-	2,054
Telephone License	5,773	-	-	5,773
Public Contractor	2,291	-	-	2,291
Livestock	-	2,884	-	2,884
Fire Protection	-	1,685	-	1,685
Vehicle	-	1,371	-	1,371
Wheat Sales	-	1,187	-	1,187
Public Service Commission	-	2,154	-	2,154
Consumer Counsel	-	780	-	780
Miscellaneous	558	743	-	1,301
TOTAL OTHER TAXES	$90,686	$65,214	$2,071	$157,971

2. BUDGETARY REPORTING

A. State Budget Process - The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The legislature only utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the General, Special Revenue and Capital Projects Funds, except for those State Special Revenue Funds which receive donations. The level of budgetary control is established by fund type, except Capital Project Funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the Legislative Fiscal Division. The Governor and budget director establish priorities and balance the budget. The Governor's budget is submitted to the Legislative Fiscal Division which prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. The Office of Budget and Program Planning establishes appropriations for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the legislature may authorize supplemental appropriations. The Governor, or his designee, may approve budget amendments for non-general fund monies not available for consideration by the legislature and for emergencies. In the accompanying financial statements, reported budget amounts are as amended. Budget amendments authorized for fiscal year 1998 were not material. There were no material expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued/encumbered. Fund balances/retained earnings are not reserved for reverted appropriations. For fiscal year 1998, reverted appropriations for all funds were $236.2 million of which $6.3 million were for the General Fund and $43.1 million were for the Special Revenue Fund. Agencies are able to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Appropriations for Capital Projects Funds are not made on an annual basis, but are adopted on a "project-length" basis. Because these non-operating budgets primarily serve a management control purpose and related appropriations are

continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided in this CAFR.

B. Budget Basis - The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in Proprietary Funds; compensated absences and inventories purchased in Higher Education Funds; certain loans from Governmental Funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.). The General and Special Revenue Fund Type budgetary statement includes a reconciliation of unreserved fund balance between "Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses" on the budgetary basis and the GAAP basis.

3. OTHER ACCOUNTING ISSUES

A. Accounting and Reporting Changes - The State made changes in its accounting and reporting practices to enhance conformance with GAAP. Except for the changes highlighted below, all changes reported in the accompanying financial statements that resulted in the restatement of beginning fund equity were made to correct errors of prior periods.

The State implemented GASB Statement 31 - Accounting and Financial Reporting for Certain Investments and for External Investment Pools. The implementation of this statement resulted in the recording of prior period adjustments in the governmental, proprietary, non-expendable trust and higher education funds of (in thousands) $1,744; $3,992; $21,446; and $174, respectively. These adjustments were recorded to restate beginning fund balance as a result of recording investments at fair value rather than amortized cost.

The State implemented GASB Statement 32 - Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. The implementation of this statement resulted in the reclassification of the Deferred Compensation fund from an agency fund to an expendable trust fund.

Effective in fiscal year 1998, the state changed its capitalization threshold for fixed assets from $1,000 to $5,000. This resulted in the recording of prior period adjustments in the proprietary and pension trust funds of (in thousands) $5,488 and $145, respectively. These adjustments were recorded to restate beginning fund balance for the effects of removing all capitalized assets with a value less than the new limit.

B. Other - The Benefits/Claims expenditure amount (in thousands) of $57,985 reported in the Component Units column in the combined proprietary fund operating statement consists of the amount of benefits paid and the actuarially determined change in estimated claims liability for the State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). The amounts for each fund are broken down as follows:

	STATE COMPENSATION INSURANCE	
	NEW FUND	OLD FUND
Benefit and Loss Adjustment Exp.	$ 59,057	$ 14,624
Incr (Decr) in Actuarially Estimated Claims	(4,419)	(11,277)
Total Benefits/Claims	$ 54,638	$ 3,347

4. CASH/CASH EQUIVALENTS AND INVESTMENTS

This footnote details the following balance sheet classifications (in thousands):

Cash/Cash Equivalents	$ 1,526,196
Equity in Pooled Investments	$ 5,453,218
Investments	$ 1,411,766

Carrying amounts and fair values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 4.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by the Montana Board of Investments (BOI) in short term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account there is a short term investment pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short term, highly liquid investments, the individual funds' investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC's

rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Investments held are reported at fair value, annually, and the difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their investment earnings within their funds are only allowed to invest in STIP. Local government participation in STIP is also voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 555 Fuller Avenue, Helena, MT 59620.

Deposits with financial institutions are categorized to indicate the level of risk assumed by the State. **Category 1** consists of deposits that are insured or collateralized with securities held by the state or by its agent in the state's name. **Category 2** consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the state's name. **Category 3** deposits are uncollateralized. The State's Cash Deposits are categorized in Table 1.

The State's cash equivalents and investments are categorized to indicate the risk level assumed by the State in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments and Table 4 - Investments to disclose the level of risk assumed by the State at fiscal year-end.

Category 1 includes investments that are insured or registered securities held by the State or its agent in the State's name. **Category 2** includes uninsured and unregistered investments in which the securities are held by the counter party's trust department or agent in the State's name. **Category 3** includes uninsured and unregistered investments in which the securities are held by the counter party, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments are classified in Category 3 at fiscal year-end. **Not Categorized** includes investments held by broker-dealers under securities loans with cash collateral.

(2) The State invests in certain types of securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks (convertible equity securities), and mortgage-backed securities in addition to other long term investment securities to provide a diversified investment portfolio and an overall competitive rate of return. All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments.

Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc.. These securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

Variable-rate instruments pay a variable rate of interest until maturity. The variable rate floats with the 91 day treasury bill or the London Interbank Offered Rate (LIBOR). Variable-rate instruments have credit risk identical to similar fixed-rate securities; however, their market risk (income) is more sensitive to interest rate changes. Their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain near par as a result of interest rates being periodically reset to maintain a current market yield.

Zero Coupon Bonds and Preferred Stocks include securities whose structure differs from the basic convertible security structure. These include PENs (Participating Equity Notes), PERCs (Preferred Equity Redemption Coupons), DECS (Dividend Enhanced Common Stock) and ACES (Automatically Convertible Equity Securities). PENs are corporate bonds offering the investor a choice at maturity of receiving the greater of the bond's par value or the value of a preset ratio of an established index. PERCs reflect an investor's acceptance of a cap in a security's price appreciation in exchange for a higher income yield. DECS and ACES are issued, and traded, at a premium to the underlying common stock in exchange for a higher dividend yield. The State's investment policy requires convertible debt and zero coupon bonds to be rated at a specific level at time of purchase as a credit risk control measure. These securities carry market risk and the potential for change in market value. Market value changes may occur due to interest rate changes, declines in the value of underlying common stock, or the triggering of a call feature and other factors.

Mortgage-backed securities reflect participation in a pool of residential mortgages. These securities include structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). Some REMICs are principal-only strips (POS) and interest-only strips (IOS). These securities are based on the cash flows from the principal and interest payments on underlying mortgages, respectively. These securities have credit risk as measured by major credit rating services. The State's investment policy requires these investments to be rated "investment grade" at the time of purchase. Market risk for these securities is caused by changes in the price or principal value of the securities due to changes in interest rates.

There are no legal risks, as of June 30, 1998, that the State is aware of regarding any investments.

(3) Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% - 105% of the fair value of the securities on loan and maintain collateral equal to not less than 100% of the fair value of the loaned security. During fiscal year 1998, the State's agent loaned, on behalf of the State, certain securities held by the agent, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership for the loaned securities. On June 30, 1998, the State had no credit risk exposure to borrowers.

B. Cash/Cash Equivalents

(1) Cash Deposits - The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, State statutes require collateralization at 50% of the bank balance. The Cash Deposit amounts include both Primary Government and Component Unit deposits.

TABLE 1 - CASH DEPOSITS (In Thousands)

Risk Category		Carrying Amount	Bank Balance	Fund
1	Insured (FDIC)	$ 1,376	$ 1,376	Various
	Collateral held by State/State's agent	14,502	14,502	Various
2		495	495	Various
3		10,335	10,335	Various
Uncategorized:				
	Undeposited Cash	414		
	Cash in U.S. Treasury	129,626		
	Less: Outstanding Warrants	(36,240)		
TOTAL CASH DEPOSITS		$120,508		

As of June 30, 1998, the carrying amount of deposits for component units was $48,397,965 and the bank balance was $48,133,880. Of the bank balance, $48,085,592 was fully insured or collateralized with securities held by the component units or their agent's in the unit's name and $48,288 was collateralized with securities held by the pledging institution's trust department or its agent in the respective component unit's name.

(2) Cash Equivalents - consists of cash in the State Treasury invested by individual funds in the Short Term Investment Pool (STIP) and the Treasurer's Cash Pool in identifiable securities and investments considered to be cash equivalents. Cash equivalents, except for the Housing Authority in the Component Unit Proprietary Fund, generally are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit. Cash equivalents may be under the control of the Board of Investments (the Board) or other agencies, as allowed by law.

TABLE 2 - CASH EQUIVALENTS (In Thousands)

	Risk Category 1					
	Securities Not on Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value	Fund
Asset-Backed Securities	$ 460,391	$ -	$ -	$ 460,391	$ 460,338	Various
Commercial Paper	29,244	-	-	29,244	29,245	Various
Corporate Obligations	74,998	-	-	74,998	75,008	Various
Government Securities	103,389	50,311	133,980	287,680	288,293	Various
Repurchase Agreements	129,000	-	-	129,000	129,000	Various
Variable-Rate	323,931	-	-	323,931	323,900	Various
Direct Investments:						
Money Markets				18,696	18,696	Various
Guaranteed Investment Contracts				80,651	80,651	Various
Other				557	557	Various
TOTAL CASH EQUIVALENTS				$1,405,148	$1,405,688	
Securities Lending Collateral Investment Pool			$ 75,879	$ 75,879	$ 75,879	

* At June 30, 1998, the underlying securities, with fair values of $50,383,689 and $134,219,552, respectively, were loaned for securities and cash collateral under a security lending agreement with the State's agent.

As of June 30, 1998 local governments invested $431,123,531 in the STIP.

As of June 30, 1998, component units of the State of Montana had investments in cash equivalents with a book value and fair value of $278,740,945.

C. Equity in Pooled Investments - Consists of investments held by pooled investment funds. The Montana Stock Pool (MTCP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), and Montana International Pool (MTIP) were created to allow qualifying funds to participate in diversified investment pools. Participation is restricted to expendable trust, nonexpendable trust, pension trust, higher education endowment and trust funds, the Deferred Compensation Plan and specific trusts established within the state special revenue fund. Purchases are subject to statutory restrictions for quality and size of holdings.

TABLE 3 - EQUITY IN POOLED INVESTMENTS (In Thousands)

	Risk Category 1				
	Securities Not on Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
MTCP:					
Corporate Stocks	$1,341,080	$ -	$ 22,720	$ 1,363,800	$ 2,254,625
Preferred Stocks	1,000	-	-	1,000	970
TFBP:					
Corporate Asset Backed	23,574	-	-	23,574	24,011
Corporate Stocks	537,988	-	1,280	539,268	580,102
US Govt. Mortgage Backed	48,121	-	-	48,121	49,224
US Govt. Direct	88,612	-	125,391	214,003	234,088
Yankee Bonds	81,283	-	-	81,283	85,465
State and Local Government	26,378	-	-	26,378	26,382
RFBP:					
Corporate Asset Backed	37,690	-	-	37,690	38,216
Corporate Stocks	1,027,545	-	10,365	1,037,910	1,105,789
US Govt. Mortgage Backed	99,814	-	-	99,814	102,329
US Govt. Direct	210,834	16,745	218,814	446,393	489,501
Yankee Bonds	141,775	-	12	141,787	146,689
State and Local Government	3,650	-	-	3,650	3,650
MTIP:					
BOI Internal International	49,248	-	12,708	61,956	79,670
Schroder Capital Management	40,647	893	9,715	51,255	40,572
SG Pacific Asset Management	32,157	349	10,425	42,931	34,093
Total Pooled Investments	3,791,396	17,987	411,430	4,220,813	5,295,376
Other Pool Assets (Net)	-	-	-	157,841	157,842
TOTAL EQUITY IN POOLED INVESTMENTS	$3,791,396	$17,987	$ 411,430	$4,378,654	$5,453,218
Securities Lending Collateral Investment Pool			$ 454,100	$ 454,100	$ 454,100

* At June 30, 1998, these underlying securities, with fair values of $19,783,217 and $437,534,232, respectively, were loaned for securities and cash under a security lending agreement with the State's agent.

As of June 30, 1998, component units of the State of Montana had equity in pooled investments with a book value of $2,772,055,726 and a fair value of $4,421,663,045.

D. Investments - Long-term investments are primarily administered by three state agencies. Article 8 of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. State law specifies which agencies may hold investments outside the administration of the BOI. The BOI, as the State's primary administrator of long-term investments, actively manages 79% of those investments; the Board of Housing, 13%; and the Department of Administration's Personnel Division, 7% for the State's Deferred Compensation Plan. Additionally, the Department of Natural Resources and Conservation manages 1% of total investments for bond related activities.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented in the Balance Sheet at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost adjusted for premium and discount amortization where applicable.

The BOI continued to invest in leveraged buyouts and venture capital in fiscal year 1998. The BOI's total leveraged buyout commitment, administered by Kohlberg, Kravis, Roberts and Companies, amounts to $150,000,000. The leveraged buyout invested balance for the pension funds amounted to $70,645,012 on June 30, 1998.

For the purpose of portfolio diversification, the BOI has committed $72,618,000 for venture capital investments administered by Brinson Partners. The June 30, 1998, venture capital invested balance totaled $8,098,964 for the Teachers' Retirement and $9,898,734 for the Public Employees' Retirement systems.

TABLE 4 - INVESTMENTS (RISK CATEGORIES) (In Thousands)

	Risk Category 1 Securities Not On Loan	Risk Category 1 On Loan for Securities Collateral*	Risk Category 2	Not Categorized*	Carrying Amount	Fair Value
PRIMARY GOVERNMENT						
Corporate Bonds	$ 28,635	$ -	$ -	$ 364	$ 28 999	$ 29,433
Corporate Asset-Backed	22,201	-	-	-	22,201	22,235
Government Securities	39,964	10,796	-	14,468	65,228	66,058
Government Mortgage-Backed	2,905	-	-	-	2,905	2,895
Other	1,632	-	-	65	1,697	1,717
Total	$ 95,337	$ 10,796	$ -	$ 14,897	$ 121,030	$ 122,338
COMPONENT UNITS						
Corporate Bonds	$ 221,584	$ -	$ -	$ 4,059	$ 225,643	$ 232,819
Corporate Asset-Backed	97,990	-	-	-	97,990	98,622
Government Securities	58,291	-	78,975	92,332	229,598	235,955
Government Mortgage-Backed	39,899	-	-	-	39,899	40,584
Other	12,419	-	95,289	576	108,284	108,717
Total	430,183	-	174,264	96,967	701,414	716,697
TOTAL	$ 525,520	$ 10,796	$ 174,264	$111,864	$822,444	$ 839,035
Direct Investments:						
PRIMARY GOVERNMENT						
Commercial Loans					115,214	115,214
Deferred Compensation					96,743	97,285
Total					$ 211,957	$ 212,499
COMPONENT UNITS						
Real Estate					$ 5,673	$ 5,407
Commercial Loans					8,218	8,361
Mortgages					212,295	217,125
Other					89,403	129,359
Total					315,589	360,252
TOTAL INVESTMENTS					$1,349,990	$1,411,786
Securities Lending Collateral Investment Pool				$185,228	$ 185,228	$ 185,228

At June 30, 1998, the underlying securities, with fair values of $30,116,996 and $178,620,368, respectively, were loaned for securities and cash collateral under a security lending agreement with the State's agent.

5. FIXED ASSETS

During fiscal year 1998, the capitalization threshold for fixed assets was increased from $1,000 to $5,000. As a result of this policy change all fixed assets with a value less than $5,000 were removed from the accounting records. These reductions are included in the Deletions/Transfers amounts reported in the table below and occurred in the proprietary, nonexpendable trust, component unit proprietary, component unit pension trust and component unit higher education funds as well as in the general fixed asset account group for (in thousands) $12,364; $1; $1,349; $317; $55,678; and $54,388, respectively.

Changes in fixed asset balances for the fiscal year ended June 30, 1998, are reflected in the following table (Intrafund transfers of fixed assets have not been eliminated) (in thousands):

PRIMARY GOVERNMENT

	Balance July 1, 1997	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1998
PROPRIETARY FUNDS				
Land	$ 1,036	$ -	$ -	$ 1,036
Buildings/Improvements	5,500	13	123	5,390
Equipment	136,683	14,179	24,545	126,317
Other Fixed Assets	1,400	-	15	1,385
Construction in Progress	1,672	2,936	1,917	2,691
Subtotal/Total	146,291	$ 17,128	$ 26,600	136,819
Accumulated Depreciation	(83,355)			(75,680)
Total	$ 62,936			$ 61,139

	Balance July 1, 1997	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1998
NONEXPENDABLE TRUST FUNDS				
Land	$ 49,398	$ -	$ -	$ 49,398
Other Fixed Assets	2	-	2	-
Total	$ 49,400	$ -	$ 2	$ 49,398
GENERAL FIXED ASSETS ACCOUNT GROUP				
Land	$ 62,645	$ 1,048	$ 681	$ 63,012
Buildings/Improvements	306,556	16,310	6,538	316,328
Equipment	111,692	17,222	66,607	62,307
Other Fixed Assets	48,679	1,365	364	49,680
Construction in Progress	14,281	16,420	7,339	23,362
Total	$ 543,853	$ 52,365	$ 81,529	$ 514,689
COMPONENT UNITS				
PROPRIETARY FUNDS				
Equipment	$ 4,153	$ 488	$ 2,324	$ 2,317
Accumulated Depreciation	(2,237)			(1,329)
Total	$ 1,916			$ 988
PENSION TRUST FUND				
Land	$ 60	$ -	$ -	$ 60
Buildings/Improvements	435	-	-	435
Equipment	376	270	494	152
Subtotal/Total	871	$ 270	$ 494	647
Accumulated Depreciation	(453)			(338)
Total	$ 418			$ 309
HIGHER EDUCATION FUNDS				
Land	$ 13,310	$ 510	$ 279	$ 13,541
Buildings/Improvements	351,141	96,265	7,740	439,666
Equipment	140,438	3,014	51,095	92,357
Other Fixed Assets	79,068	4,051	106	83,013
Construction in Progress	96,298	12,240	42,519	66,019
Intangible Assets	3,301	190	150	3,341
Total	$ 683,556	$ 116,270	$101,889	$ 697,937

6. RETIREMENT SYSTEMS

DEFINED CONTRIBUTION PLAN

Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP participate in the Teachers' Retirement System, a defined benefit plan discussed in the next section. Beginning July 1, 1993, membership in the ORP is mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Approximately 1,602 employees are members of the ORP. Required employee contributions are 7.044% of salary and required employer contributions are 4.956% of salary for a total of 12% of salary contributed to the ORP.

	TIAA-CREF (in thousands)
Covered Payroll	$ 65,219
Total Payroll	210,032
Employer Contributions	$ 3,233
Percent of Covered Payroll	4.956%
Employee Contributions	$ 4,594
Percent of Covered Payroll	7.044%

DEFINED BENEFIT PLANS

A. General

The Public Employees' Retirement Division, a discretely presented component unit of the State of Montana, administers eight defined benefit plans - Public Employees' Retirement System (PERS), Highway Patrol Officers' Retirement System (HPORS), Judges' Retirement System (JRS), Game Wardens' and Peace Officers' Retirement System (GWPORS), Sheriffs' Retirement System (SRS), Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and Volunteer Firefighters' Compensation Act (VFCA). The division prepares a publicly issued financial report that includes financial statements and required supplementary information for PERS, HPORS, JRS, GWPORS, SRS, MPORS, FURS, and VFCA.

The Teachers' Retirement Division, a discretely presented component unit of the State of Montana, administers one defined benefit plan - Teachers' Retirement System (TRS). The division prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS.

A summary of government employers participating in PERS, SRS, MPORS, FURS, GWPORS and TRS by employer type at June 30, 1998 follows:

	Retirement System					
	PERS	**SRS**	**MPORS**	**FURS**	**GWPORS**	**TRS**
Employers						
State Agencies	37				5	6
Counties	55	56				
Cities/Towns	87		19	14		
Colleges/Universities	6				3	12
School Districts	233					396
Other	82					
Total	500	56	19	14	8	414

B. Plan Descriptions

The State contributes to and/or administers eight retirement systems and one pension plan in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination (except VFCA) and disability benefits. The post-retirement benefits of each of the systems are included in the plan descriptions below. In addition, the 1997 Legislature passed a guaranteed annual benefit adjustment (GABA) to the PERS, MPORS, GWPORS, SRS, JRS, HPORS, and FURS that will provide a benefit increase of 1.5% each January, beginning January 1998, if the recipient has been receiving a retirement benefit for at least 36 months. In addition, MPORS, JRS, HPORS & FURS members hired prior to July 1, 1997, and retirees of these systems, were required to make an election by December 31, 1997, for GABA coverage.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law; contribution requirements are not actuarially determined. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry age normal funding method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost in addition to amortizing the unfunded liability over a period not to exceed 30 years.

(1) State as the Single Employer

HPORS - Highway Patrol Officers' Retirement System - This system, established in 1971 and governed by Title 19, chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all uniformed members of the Montana Highway Patrol, including supervisory personnel. Rights are vested after five years of service. Member contributions are 9% of total salaries of active highway patrol officers hired prior to July 1, 1997 and not electing GABA coverage; and 9.05% for members hired after June 30, 1997 and members electing GABA coverage. The employer contribution rate is 36.33% of active officers salaries. For members hired on or before July 1, 1985, there is no minimum age, but minimum service is 20 years for benefit eligibility. A member hired after July 1, 1985, must be 50 years old and have 20 years of creditable service for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the final average salary. Post-retirement benefits, for non-GABA members, are in the form of minimum benefit supplements which ensure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit nor 60% of the current base salary of a probationary officer. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, may be eligible for an annual lump sum payment distributed in September. This lump sum payment is funded by a registration fee of 25 cents per vehicle license. The average payment in fiscal year 1998 was $1,937. This enhancement is also limited to non-GABA members.

JRS - Judges' Retirement System - This system, established in 1967 and governed by Title 19, chapters 2 & 5 of the MCA, provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salaries and the State contributes 25.81% of active judges' salaries. Prior to July 1, 1997, the State was required to contribute an annual amount equal to 34.71% of members salaries from district court fees transmitted to the State by clerks of the district courts. District court fees have not generated the cash flow for the JRS as required by 19-5-404, MCA, for several years. Legislation, effective July 1, 1997, requires that the court fees be deposited into the general fund and the State transfer the statutorily required amount to the retirement system. This legislation greatly reduced the JRS liability, and the retirement system is receiving the annual required contributions (ARC). There is no contribution deficiency and the system is actuarially sound. For benefit eligibility, minimum service is 5 years and minimum age is 65. The monthly retirement benefit formula is 3 1/3% times the number of years of service (to a maximum of 15 years) times 1/12 the final average salary, plus 1.785% of such salary for each year of service after 15 years. Non-GABA JRS retirees receive increases in benefits at the same rate as salary increases are granted to active members through legislative action. Rights are vested after five years of creditable service.

(2) State as an Employer Contributor to a Cost-Sharing Multiple-Employer

PERS - Public Employees' Retirement System - This mandatory system, established in 1945 and governed by Title 19, chapters 2 & 3 of the MCA, provides retirement services to substantially all public employees not covered by another public system. Member contributions were 6.8% of total monthly compensation for fiscal year 1998, increasing to 6.9% on July 1, 1999. For fiscal year 1998, each state and university system employer contributed 6.8% of their total PERS covered payroll. Participating local government and school district employers contributed 6.7% of their PERS covered payroll; the remaining .1% was paid from the general fund. Total state and employer contributions will also increase to 6.9% on July 1, 1999. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking the greater of: (1) 1/56 times the number of years of service times the final average salary times any early retirement reduction if necessary or (2) a monthly annuity that is the actuarial equivalent of twice the member's accumulated regular contributions. Members' rights are vested after 5 years of service.

TRS - Teachers' Retirement System - This mandatory system, established in 1937 and governed by Title 19, chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system. Member and employer contributions are 7.044% and 7.47%, respectively, of gross salaries. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for annual benefits is 1/60 times creditable service years times the final average compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Effective January 1, 1988, university system employees eligible to participate in the Teachers' Retirement System could elect to participate in an Optional Retirement Plan established by the Board of Regents. As of July 1, 1998, a total of 2,846 university system employees have elected to participate in the Optional Retirement Plan. Effective July 1, 1993, membership in the Optional Retirement Plan is mandatory for new employees to the university system unless they are already a member of the Teachers' Retirement System.

SRS - Sheriffs' Retirement System - This system, established in 1974 and governed by Title 19, chapters 2 & 7 of the MCA, covers all sheriffs, and State Department of Justice investigators hired after July 1, 1993. The member contribution is 9.245% of salary; the employer contribution is 9.535% of salary. Minimum years of service for normal service retirement eligibility are 20. The service retirement benefit is calculated at 2.5% of the final average salary for each year of creditable service. Any member with more than 24 years of service will receive the allowance as calculated above plus an additional 1.35% of the final average salary for each year of creditable service in excess of 24 years. Reduced benefits for early retirement may be taken with a minimum of five years of service and a minimum age of 50. Rights are vested after five years of service.

GWPORS - Game Wardens' & Peace Officers' Retirement System - This system, established in 1963 and governed by Title 19, chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel and state peace officers not eligible to join the SRS, HPORS and MPORS systems. The member contributes 8.5% of salary and the State contributes 9.0% of active game wardens's salaries. For benefit

eligibility, minimum age is 50 and minimum years of service are 20. If subject to involuntary termination, a member may retire with five years of service at age 55. The yearly retirement benefit formula is 2% times the number of years of service times the final average salary. Rights are vested after five years of service. Effective July 1, 1997 the Game Wardens' Retirement System was expanded to include the state peace officers and the name was changed accordingly to GWPORS. This change resulted in an increase in membership. At June 30, 1998 the system had 327 members, 90 game wardens and 237 peace officers. The membership on June 30, 1997 was 92. Peace officers hired after June 30, 1997 will become members of the GWPORS. Peace officers hired prior to July 1, 1997 were members of the PERS, and were required to make an election by December 31, 1997 to join the GWPORS. PERS members who are hired into a position covered by the GWPORS have 30 days to elect membership in the GWPORS.

(3) State as a Nonemployer Contributor to a Cost-Sharing Multiple-Employer

MPORS - Municipal Police Officers' Retirement System - The system, established in 1975 and governed by Title 19, chapters 2 & 9 of the MCA, covers all municipal police officers of cities covered by the plan. The member contribution is 7.8% of salary for members employed prior to July 1, 1975; 9% of salary for members employed after June 30, 1975, and prior to July 1, 1979; 10.5% of salary for members employed after June 30, 1979 and prior to July 1, 1997; and 11% for members hired on or after July 1, 1997 and members electing GABA. City contributions are 14.41% of active police officers' salaries. The State contributes 29.37% of active police officers' salaries. The State's contribution is funded from the general fund. Minimum years of service are five for benefit eligibility at age 50, or 20 years of service at any age. The service retirement benefit is 2.5% times the number of years of service times the final average salary. The post-retirement benefit, for non-GABA members, is the amount needed to ensure that the retiree's benefit is no less than 50% of the base salary of a newly confirmed police officer. These post-retirement benefits are paid directly by the insurance premium tax fund and are in addition to the actuarially determined contributions to the system. Rights are vested after five years of service.

FURS - Firefighters' Unified Retirement System - This system, established in 1981 and governed by Title 19, chapters 2 & 13 of the MCA, provides retirement benefits for firefighters employed by first and second class cities and other cities that wish to adopt the plan. The member contribution is 9.5% of base compensation for members hired prior to July 1, 1997 and 10.7% for new hires after June 30, 1997 and for members electing GABA coverage. City contributions are 14.36% of total annual compensation. The State contribution is 32.61% of total annual compensation for all firefighters and is paid out of the general fund. Minimum benefit eligibility is 20 years regardless of age; unless hired prior to July 1, 1981, then only 10 years are required. For members not electing GABA and hired prior to July 1, 1981, monthly retirement benefit is 50% of final monthly compensation plus 2% per year for each year in excess or 20 years, or 2.5% of final average salary per year. Members hired before July 1, 1981 with a minimum of ten years but less than 20 years, receive a retirement benefit of 2% per year of service. Members electing GABA and hired after July 1, 1981 receive 2.5% per year of service. Post-retirement benefits, for non-GABA members, require that each retiree receive at least 50% of the salary paid a newly confirmed active firefighter. Rights are vested after ten years of service.

(4) State as a Nonemployer Contributor

VFCA - Volunteer Firefighters' Compensation Act - This compensation program, established in 1965 and governed by Title 19, chapter 17 of the MCA, provides medical benefits and pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. The State contribution is 5% of fire insurance premium taxes collected. This retirement system is required by law to be fully funded and cannot pay benefits unless money is available. Rights are vested after ten years of qualified service. Eligibility requirements are 55 years of age and 20 years qualified service or 60 years of age and a minimum of 10 years qualified service.

C. Summary of Significant Accounting Policies

The defined benefit plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

D. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the retirement systems. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement systems have no investments of any commercial or industrial organization whose fair value equals 5% or more of the retirement systems' net assets available for benefits.

E. Long-Term Contracts for Contributions

The Public Employees' Retirement System has outstanding contributions for three early retirement programs:

The 1993 Montana Legislature enacted House Bill 517--Retirement Incentive Program (RIP) providing PERS members (eligible for a service retirement) an incentive to terminate between June 25, 1993 and December 31, 1993. Local government employers participated through election on or before June 1, 1993. The employer purchased, on the member's behalf, one year of additional service for each five years of qualified service ("1 for 5"), up to a maximum of three years, for any retirement eligible member who terminated employment during the defined time period. A total of 898 members took advantage of the program (630 from 32 state agencies, 95 from 6 universities, and 173 from 48 local government agencies).

The 1995 Montana Legislature provided a new provision of the Employee Protection Act (HB 490) allowing state employees (eligible for a service retirement) whose positions have been eliminated on or before June 30, 1997, to have their employer purchase up to three years of "1-for-5" additional service. As of June 30, 1998, 165 employees have taken advantage of this provision.

The 1997 Montana Legislature provided a new provision of the Employee Protection Act (EPA) (19-2-706, MCA) allowing state employees (eligible for a service retirement) whose positions have been eliminated on or before June 30, 1999 to have their employer purchase up to three years of "1-for-5" additional service. As of June 30, 1998, four employees have taken advantage of this provision.

The employer has up to ten years to complete payment for the services purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received (including interest) during fiscal year 1998 totaled $200,207. June 30, 1998 outstanding balances are $638,797.

F. Actuarial Data

Actuarial valuations are performed every two years. Hendrickson, Miller & Associates Inc., Helena, MT, prepared the actuarial reports for the retirement systems, excluding TRS. Milliman & Robertson, Inc., of Seattle, WA., performed the actuarial valuation for TRS.

G. Funding Policy and Annual Pension Cost

The following tables provide information concerning funding policies and annual pension costs (in thousands):

Single Employer Systems		
	HPORS	**JRS**
Annual pension cost	$ 3,329	$ 1,072
Contributions		
Employer	$ 1,771	$ 843
Employee	652	229
License and Registration fees	970	-
Actuarial valuation date	7/01/98	7/01/98
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	20.28	24.64
Asset valuation method	4 year smoothed market	4 year smoothed market
Actuarial Assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases (includes inflation factor)	6.0%	5.5%
Cost of living adjustment	6.0%	5.5%
Postretirement benefit increases	None	None

Single Employer Systems			
Year Ending	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
HPORS			
06/30/96	$ 3,163	100%	NONE
06/30/97	$ 3,160	100%	NONE
06/30/98	$ 3,329	100%	NONE
JRS			
06/30/96	$ 1,092	90.75%	$2,738
06/30/97	$ 1,128	87.50%	$3,086
06/30/98	$ 1,072	100%	NONE

Multiple Employer Systems			
Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
PERS			
06/30/95	$ 40,348	100%	NONE
06/30/96	40,776	100%	NONE
06/30/97	43,182	100%	NONE
06/30/98	45,223	100%	NONE
MPORS			
06/30/95	$ 4,318	100%	NONE
06/30/96	4,770	100%	NONE
06/30/97	7,355	100%	NONE
06/30/98	7,840	100%	NONE
FURS			
06/30/95	$ 4,158	100%	NONE
06/30/96	4,433	100%	NONE
06/30/97	6,811	100%	NONE
06/30/98	7,094	97.8%	NONE
SRS			
06/30/95	$ 1,222	100%	NONE
06/30/96	1,527	100%	NONE
06/30/97	1,618	100%	NONE
06/30/98	1,919	100%	NONE
GWPORS			
06/30/95	$ 191	100%	NONE
06/30/96	225	100%	NONE
06/30/97	242	100%	NONE
06/30/98	706	100%	NONE
TRS			
06/30/95	$ 39,073	100%	NONE
06/30/96	40,627	100%	NONE
06/30/97	41,640	100%	NONE
06/30/98	44,476	100%	NONE

H. Schedules of Funding Progress

Single Employer Systems						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
HPORS						
07/01/94	$40,466	$63,327	$22,861	63.90%	$5,650	404.60%
07/01/96	47,325	67,709	20,384	69.90%	6,242	326.57%
07/01/98	59,531	78,722	19,191	75.62%	6,201	309.48%
JRS						
07/01/94	$21,281	$23,171	$ 1,890	91.84%	$2,777	68.06%
07/01/96	24,944	27,723	2,779	89.98%	2,907	95.61%
07/01/98	31,646	29,017	(2,629)	109.06%	3,144	(83.62)%

Multiple Employer Systems						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
PERS						
07/01/94	$1,366,864	$1,625,720	$258,856	84.08%	$572,974	45.18%
07/01/96	1,629,706	1,826,207	196,500	89.24%	608,592	32.29%
07/01/98	2,113,314	2,298,702	185,388	91.94%	660,579	28.06%
MPORS						
07/01/94	$ 56,209	$ 90,507	$ 34,298	62.10%	$ 13,395	256.05%
07/01/96	70,068	105,664	35,596	66.31%	15,828	224.90%
07/01/98	94,908	173,642	78,734	54.66%	17,873	440.52%
FURS						
07/01/94	$ 54,647	$ 113,153	$ 58,506	48.29%	$ 12,424	470.90%
07/01/96	67,745	131,111	63,366	51.67%	13,783	459.75%
07/01/98	89,988	169,006	79,018	53.25%	15,104	523.15%
SRS						
07/01/94	$ 55,220	$ 42,978	$ (12,242)	128.48%	$ 15,869	(77.14)%
07/01/96	68,647	52,751	(15,895)	130.13%	17,890	(88.85)%
07/01/98	92,160	81,077	(11,083)	113.67%	20,127	(55.06)%
GWPORS						
07/01/94	$ 16,297	$ 16,389	$ 92	99.44%	$ 2,494	3.70%
07/01/96	18,160	17,325	(835)	104.82%	2,762	(30.23)%
07/01/98	23,190	22,412	(778)	103.47%	7,839	(9.92)%
TRS						
07/01/94	$1,157,512	$1,712,933	$555,421	67.6%	$472,860	117.4%
07/01/96	1,376,716	1,939,569	562,853	71.0%	501,516	112.2%
07/01/98	1,809,037	2,123,290	314,253	85.2%	529,795	59.3%

Nonemployer Contributor						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
VFCA						
07/01/93	$ 8,760	$15,211	$6,451	57.59%	N/A	N/A
07/01/96	11,504	16,636	5,132	69.15%	N/A	N/A
07/01/98	13,941	18,354	4,413	75.96%	N/A	N/A

7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Systems, the following postemployment benefits are provided:

The State provides 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Federal Consolidated Omnibus Reconciliation Act (COBRA) to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are receiving employee health care benefits at the time they discontinue State employment and (2) dependents who lose dependent eligibility. At June 30, 1998, 89 individuals were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established premiums vary between $102 and $351 per month depending on the medical plan selected, family coverage and Medicare eligibility. The State acts as secondary payor for Medicare-eligible claimants. As of June 30, 1998, 2,948 retirees were receiving health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-payments of the members' selected medical plan). Dental claims are reimbursed at 50% to 100% depending on the services provided. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of $10,516,143 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to $7,968,141 leaving $2,548,002 of claims in excess of premium revenue paid by the State.

In accordance with section 2-18-702, MCA, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers' Retirement System, Public Employees' Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS at least 5 years. Spouses, unmarried dependent children, and surviving spouses are also eligible. Administratively established premiums vary between $138 and $397 per month and are revised annually. Medicare eligible plan members are assumed to be Medicare insured. After an annual $500 deductible for non-Medicare eligible retirees, the MUS plan reimburses 75% of the first $8,000 in medical claims and 100% thereafter. After a $350 deductible for Medicare eligible retirees, the plan reimburses 75% for the first $4,000 in medical claims and 100% thereafter. The plan automatically reduces claim reimbursements for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 1998, 1,287 retirees were enrolled in the MUS plan. Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 1998, estimated expenditures of $4,027,806 were recognized for postemployment health care benefits. Of this amount $2,769,728 was paid by retirees through premiums and the balance of $1,258,078 was paid by the MUS.

8. DEFERRED COMPENSATION PLAN

Since 1976, the State of Montana has offered a deferred compensation plan which allows employees to set aside a portion of their salary toward retirement while deferring the State and Federal income taxes until future years. The compensation deferred is not available to employees until separation from State service, retirement, death or upon an unforseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457; Title 19, chapter 50, MCA reflects these changes. Assets of the deferred compensation plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries.

All employees of the State, including the Montana University System and contracted employees, are eligible to participate. Participating employees are able to invest their deferrals in two primary options: 1) a "fixed" or stable value option which guarantees both principal (the payroll deferral) and a quarterly rate of earnings; and 2) a "variable" option which currently consists of twenty-seven (27) mutual funds. Participating employees are allowed to utilize both options and, under the variable option, as many of the offered mutual funds as they choose. As of June 30, 1998, the net assets of the Plan were $163.969 million.

9. RISK MANAGEMENT

There are two Primary Government public entity risk pools and two Component Unit public entity risk pools that are reported within the Enterprise Fund Type: Primary Government pools include Hail Insurance and Subsequent Injury Funds; Component Unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are three Primary Government Other Than Public Entity Risk Pools reported within the Internal Service Fund Type: Group Employees' Comprehensive Medical and Dental Plan, Montana University System (MUS) Group Benefits Plan and Property and Casualty Insurance Plans. In all of these funds there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. None of these funds have acquisition costs; therefore, no cost is amortized for the period. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance - Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the hail insurance program. The Hail Insurance program issued 1,756 policies during the 1998 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a refund. Anticipated investment income is considered in computing a premium deficiency of which there is none.

A claim must be submitted to the State Board of Hail Insurance within fourteen days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of $475,414 based on estimated claims through June 30, 1998. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Subsequent Injury - This fund provides benefits to workers, certified as a person with a disability, who are injured on the job and entitled to benefits under the Workers' Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104 week time period. In Montana, there are 2,320 individuals with certified disabilities.

Workers' compensation insurance premium experience modification factors are influenced by the 2 year limitation and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 1998, the amount of this liability is estimated to be $1,017,427.

(3) State Compensation Insurance (New Fund) - Liability coverage to employers for injured employees who are insured under the Workers' Compensation and Occupational Disease Acts of Montana and workers' compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund must insure any employer who desires coverage. At fiscal year-end, approximately 24,043 employers were insured with the New Fund. Montana state governmental agencies must obtain their workers' compensation coverage through the New Fund. Anticipated investment income is considered for computing a premium deficiency and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1998, has estimated liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 1998, $310,687,327 of unpaid claims and claim adjustment expenses are presented at face value. In prior years, the unpaid claims and claim adjustments on indemnity losses were stated at their net present value in the financial statements. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

The New Fund uses reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer. The New Fund did not deduct any claim liabilities related to potential reinsurance recoverable.

Statute requires the New Fund set premiums at least annually at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus balance of 25% of annual premium revenue.

(4) State Compensation Insurance (Old Fund) - The liability and payment of workers' compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund. Funding for claim payments is provided by old fund liability taxes (OFLT) imposed on employers' payroll (0.5%), employees' wages (0.2%) and sole proprietors and subchapter S shareholders' distributive income (0.2%). The OFLT will provide funding for old fund claims. An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1998, was used to estimate liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. At June 30, 1998, $194,401,217 of unpaid claims and claim adjustment expenses are presented at face value. This fund generates little interest earnings, does not discount estimated claims liabilities, and does not compute a premium deficiency (See Note 14).

(5) Changes in Claims Liabilities For the Past Two Years - As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

Primary Government	HAIL INSURANCE		SUBSEQUENT INJURY	
	1998	1997	1998	1997
Unpaid claims and claim adjustment expenses at beginning of year	$ 505	$ 618	$ 1,154	$1,022
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	1,601	3,064	-	-
Increase (Decrease) in provision for insured events of prior years	(65)	(31)	100	402
Total incurred claims and claim adjustment expenses	1,536	3,033	100	402
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(996)	(2,498)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(570)	(648)	(237)	(270)
Total payment	(1,566)	(3,146)	(237)	(270)
Total unpaid claims and claim adjust. exp. at end of the year	$ 475	$ 505	$ 1,017	$ 1,154

Component Units	STATE COMPENSATION INSURANCE (NEW FUND)		STATE COMPENSATION INSURANCE (OLD FUND)	
	1998	1997	1998	1997
Unpaid claims and claim adjustment expenses at beginning of year	$344,632	$402,714	$205,678	$248,802
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	69,277	81,046	-	-
Increase (Decrease) in provision for insured events of prior years	(44,165)	(80,752)	3,347	(26,812)
Total incurred claims and claim adjustment expenses	25,112	294	3,347	(26,812)

Component Units	STATE COMPENSATION INSURANCE (NEW FUND) 1998	1997	STATE COMPENSATION INSURANCE (OLD FUND) 1998	1997
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(12,942)	(12,590)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(46,115)	(45,786)	(14,624)	(16,312)
Total payment	(59,057)	(58,376)	(14,624)	(16,312)
Total unpaid claims and claim adjust. exp. at end of the year	$310,687	$344,632	$194,401	$205,678

(6) Risk Management Trend Information

The following table only presents risk management trend information for the State Compensation Insurance (New Fund). Only the New Fund has a three to five year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services; its funding source is the old fund liability tax. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The table below illustrates how the earned revenues (net of reinsurance) of the New Fund and its investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Section 3 shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest reestimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be expanded and revised as data for successive policy years develops.

	STATE COMPENSATION INSURANCE (NEW FUND) 1991	1992	1993	1994	1995	1996	1997	1998
1. **Premiums and Investment Revenue**								
Earned	$116,886	$156,013	$204,050	$219,380	$181,572	$127,315	$95,765	$77,555
Ceded	231	270	290	318	269	519	348	304
Net Earned	$116,655	$155,743	$203,760	$219,062	$181,303	$126,796	$95,417	$77,251
2. **Unallocated expenses including overhead**	$ 9,909	$ 11,723	$ 10,760	$ 14,416	$ 15,941	$ 18,996	$ 14,575	$ 17,338
3. **Estimated losses and expenses end of accident year**								
Incurred	$133,819	$183,425	$186,480	$199,890	$164,628	$95,067	$76,067	$64,983
Ceded	-	-	-	-	-	-	-	-
Net Incurred	$133,819	$183,425	$186,480	$199,890	$164,628	$95,067	$76,067	$64,983
4. **Net Paid (cumulative) as of:**								
End of policy year	$ 17,618	$ 20,244	$ 18,347	$ 18,693	$ 18,137	$15,818	$12,589	$12,943
One year later	44,335	50,576	46,343	45,947	40,473	32,890	28,451	
Two years later	64,079	68,837	62,717	60,971	52,073	42,361		
Three years later	74,901	77,950	71,666	67,576	58,722			
Four years later	81,747	83,173	76,280	72,212				
Five years later	85,924	86,461	80,165					
Six years later	88,532	89,370						
Seven years later	91,235							
5. **Re-estimated ceded losses and Expenses**	-	-	-	-	-	-	-	-

	STATE COMPENSATION INSURANCE (NEW FUND)							
	1991	1992	1993	1994	1995	1996	1997	1998
6. **Re-estimated net incurred losses and expense:**								
End of policy year	$133,819	$183,425	$186,480	$199,890	$164,628	$95,067	$76,067	$64,983
One year later	166,980	184,968	184,030	184,920	124,123	88,923	67,235	
Two years later	160,272	175,218	167,052	135,472	107,074	77,286		
Three years later	151,554	161,184	133,017	116,756	95,456			
Four years later	141,389	135,775	120,583	107,656				
Five years later	130,250	125,084	111,208					
Six years later	121,568	119,780						
Seven years later	118,856							
7. **Increase (decrease) in estimated net incurred losses and expenses from end of policy year**	($14,963)	($63,645)	($75,272)	($92,234)	($69,172)	($17,781)	($8,832)	

Item 2, Item 3 and Item 6 ("End of policy year") have been restated to no longer include unallocated loss adjustment expenses. The Trend Information table has been expanded to seven categories and shows the effect of ceded reinsurance.

B. Other Than Public Entity Risk Pools

(1) Group Employee Comprehensive Medical and Dental Plan - This plan is fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees and their dependents, with two exceptions. The two outside insured products are: vision care insured by the Vision Service Plan Insurance Company and the Yellowstone Community Health Plan, an insured community health option (HMO) available to state employees in the Billings area. Premiums are collected through payroll deductions, deductions through the Public Employees' Retirement Division and self-payment and are recorded as revenue in the Employees' Group Benefits Internal Service Fund. At June 30, 1998, estimates for claims liabilities, which include incurred but not reported claims, are $6,500,578 and are based on a formula provided by The Segal Company, a consulting actuarial firm. A liability is reported in the accompanying financial statements for these estimated claims.

(2) Montana University System (MUS) Group Benefits Plan - This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System, the Montana Higher Education Student Assistance Corporation (MHESAC), and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured. Blue Cross/Blue Shield is the claims administrator on the plan. Managed Care Montana (Blue Cross/Blue Shield of Montana) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Internal Service Fund. The claims liability is estimated to be $1,942,106 as of June 30, 1998, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Property & Casualty Insurance Plans - This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage and State-administered foreclosure housing units. The State self-insures the $150,000 deductible per occurrence for most property insurance as well as various deductible amounts for other state property. The State also self-insures against losses of property below $150,000 of value, with State agencies paying the first $1,000. Commercial property insurance protects approximately $1.9 billion of State-owned buildings and contents. The State property insurance includes earthquake and flood protection to $100 million annually with deductibles of $1 million for earthquake and $500,000 for flood per occurrence. Premiums are collected from all State agencies including Component Units and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Tillinghast, a Towers Perrin Company, and issued for the accident period July 1, 1991 through June 30, 1998, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 1998, estimated claims liability of $13,770,688, discounted at 11%, includes those claims incurred but not reported and is reported in the accompanying financial statements (See Note 14).

(4) Changes in Claims Liabilities For the Past Two Years - These funds establish liabilities for both reported and incurred but not reported claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Medical & Dental		MUS Group Benefits		Prop. & Casualty Insurance	
	1998	1997	1998	1997	1998	1997
Amount of claims liabilities at the beginning of each fiscal year	$ 7,156	$ 6,959	$ 3,700	$ 3,100	$12,825	$14,980
Incurred claims:						
Provision for insured events of the current year	42,936	40,157	22,076	20,928	5,185	4,520
Increases (Decreases) in provision for insured events of prior years	(655)	197	(1,758)	600	748	(2,037)
Total incurred claims	42,281	40,354	20,318	21,528	5,933	2,483
Payments:						
Claims attributable to insured events of the current year	(42,936)	(40,157)	(22,076)	(20,928)	(1,436)	(1,075)
Claims attributable to insured events of prior years	-	-	-	-	(3,551)	(3,563)
Total Payments	(42,936)	(40,157)	(22,076)	(20,928)	(4,987)	(4,638)
Total claims liability at end of each fiscal year	$ 6,501	$ 7,156	$ 1,942	$ 3,700	$13,771	$12,825

10. COMMITMENTS

A. Highway Construction - At June 30, 1998, the Department of Transportation had contractual commitments of approximately $151 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction - At June 30, 1998, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $43.2 million for capital projects construction. The Primary Government will fund $34.8 million of these projects with the remaining $8.4 million coming from higher education funds.

C. Proprietary Fund Commitments - Budgets are administratively established in the Enterprise and Internal Service Funds, excluding depreciation, compensated absences and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unreserved retained earnings in the accompanying financial statements as follows (in thousands):

PRIMARY GOVERNMENT

Enterprise Funds	AMOUNT
Liquor Warehouse	$ 68
Uninsured Employers	4
Historical Society Publications	4
West Yellowstone Airport	5
Local Government Audits	1
Subtotal-Enterprise Funds	$ 82
Internal Service Funds	
Highway Equipment	$ 773
ISD	1,031
Admin. Insurance	28
Admin. Supply	270
Publications & Graphics	56
Buildings & Grounds	370
Labor Central Services	30
Commerce Central Services	21
DEQ Indirect Cost Pool	68
FWP Warehouse Inventory	35
Investment Division	6
Aircraft Operation	18
OPI Central Services	23
Records Management	1
Debt Collections	4
Statewide Fueling Network	1
Admin. DP Unit	2
Subtotal-Internal Service Funds	$ 2,737
Total-Primary Government	$ 2,819

COMPONENT UNITS	
Health Facilities Authority	5
Worker's Comp - New Fund	1,055
Subtotal-Component Units	$ 1,060
Total-Proprietary Fund Types-Reporting Entity	$ 3,879

11. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legisiature. It is expected that in the normal course of operations most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases - Changes in capitalized leases/installment purchases are as follows (in thousands):

Primary Government	Balance July 1, 1997	Additions (Deductions)	Balance June 30, 1998
General Long-Term Obligations	$ 1,667	$ 511*	$ 2,178
Proprietary Fund Types			
Enterprise Fund	$ 2	$ (1)	$ 1
Internal Service Fund	2,597	306	2,903
Total Proprietary	2,599	305	2,904
Total-Primary Government	$ 4,266	$ 816	$ 5,082
Component Units			
Pension Trust Fund	$ 10	$ (10)	$ -
Higher Education Funds	1,590	(615)	975
Total-Component Units	$ 1,600	$ (625)	$ 975
Total Capitalized Leases/ Installment Purchases	$ 5,866	$ 191	$ 6,057

*This amount consists of $1,602,000 of additions as inceptions; $31,000 of additions as adjustments; and $1,122,000 as deductions.

Future minimum lease payments under capital leases/installment purchases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government: General Long-Term Obligations	Primary Government: Proprietary Fund Types: Enterprise	Primary Government: Proprietary Fund Types: Internal Service	Comp Units: Higher Education Funds	Totals
1999	$ 1,145	$ 1	$ 1,577	$ 674	$ 3,397
2000	955	-	1,006	311	2,272
2001	201	-	428	66	695
2002	103	-	70	21	194
2003	-	-	21	3	24
2004+	-	-	-	-	-
Total minimum pmts	$ 2,404	$ 1	$ 3,102	$ 1,075	$ 6,582
Less: Interest	(226)	-	(199)	(100)	(525)
Present value of minimum payments	$ 2,178	$ 1	$ 2,903	$ 975	$ 6,057

B. Operating Leases - Total rental payments of primary government and component units for operating leases in fiscal year 1998 were $6,343,000 and $559,000, respectively. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Component Units	Totals
1999	$ 6,313	$ 532	$ 6,845
2000	4,141	385	4,526
2001	3,199	290	3,489
2002	2,194	135	2,329
2003	1,440	6	1,446
2004+	5,627	6	5,633
Total future rental payments	$ 22,914	$ 1,354	$ 24,268

12. STATE DEBT

A. General Information - The State has no constitutional limit on its power to issue obligations or incur debt other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-Term Debt - The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued.

The Board of Investments (BOI) of the State of Montana is authorized to issue Municipal Finance Consolidation Act Bonds which may not aggregate more than $50 million. The purpose of the bonds is to provide funds for the BOI to make loans to eligible local government units. The bonds are not in any way a debt or liability of the State of Montana. The bonds are limited obligations of the BOI payable solely from repayments of principal and interest on loans made by the BOI to participating local government units, investment income under the indenture and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the Trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and have been classified as short-term debt. The amounts issued and outstanding at June 30, 1998, are as follows (in thousands):

Series	Amount Issued	Balance June 30, 1998
1991	$ 5,000	$ 4,750
1992	6,500	6,235
1994	7,500	7,200
1995	7,500	7,385
1997	10,000	9,930
1998	12,500	12,500
TOTAL		$48,000

The Montana Tech of the University of Montana entered into a financing agreement with the Montana Board of Investments for a short-term loan under the INTERCAP REVOLVING PROGRAM. The loan matures within one year and has been classified as short-term debt. The amount issued and outstanding at June 30, 1998 is (in thousands):

Series	Amount Issued	Balance June 30, 1998
1998	$ 75	$ 75

C. Long-Term Debt - The full faith, credit and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue bonds and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees and assets of the State and the various colleges and universities. Long-term debt (excluding bonds/notes of Enterprise Funds and Internal Service Funds discussed elsewhere in this footnote; Leases - Note 11 and Compensated Absences - Note 1) of the State at June 30, 1998, is as follows (in thousands):

General Obligation Debt	Series	Amount Issued	Interest Range (%)	Principal Payments FY 1999	Principal Payments In Year of Maturity (10)	Balance June 30, 1998
Long-Range Bldg Program	1985A	$ 8,550	8.0	$ 125	$150 (2001)	$ 425
Water Development Program (1)	1988	500	9.4	20	50 (2009)	365
Water Development Program (1)	1989B	500	8.55	20	50 (2010)	390

General Obligation Debt	Series	Amount Issued	Interest Range (%)	Principal Payments FY 1999	In Year of Maturity (10)	Balance June 30, 1998
Water Development Program (1)	1991A	750	8.0	40	90 (2007)	565
Wastewater Treatment Works	1991B	2,595	5.6-6.8	85	215 (2014)	2,235
GO Refunding	1992	31,330	4.9-6.2	340	390 (2010)	4,955
Energy Conservation Program (2)	1993A	1,500	4.0-4.75	145	180 (2004)	970
Long-Range Bldg Program	1993B	3,185	3.6-4.25	385	310 (2004)	1,775
Renewable Resource Development(1)	1993C	750	4.85-5.65	70	95 (2004)	495
Long-Range Bldg Program	1994A	22,540	4.2-6.0	835	1,725 (2014)	19,535
Wastewater Treatment Works	1994B	2,200	4.6-6.1	70	180 (2016)	2,070
Long-Range Bldg Program	1994C	21,955	5.125-7.0	740	1,000 (2005)	6,035
Energy Conservation Program (2)	1994D	1,600	4.9-5.5	145	200 (2005)	1,200
Renewable Resource Development (1)	1994E	750	7.7-8.5	65	105 (2005)	580
Energy Conservation Program (2)	1996A	1,650	3.6-4.4	145	195 (2006)	1,345
Renewable Resource Development (1)	1996B	1,250	5.45-6.1	105	155 (2006)	1,025
Wastewater Treatment Works	1996C	2,765	4.2-5.75	100	120 (2017)	2,710
Long-Range Bldg Program	1996D	30,075	5.25-6.0	970	2,370 (2017)	29,210
Renewable Resource Development (1)	1996E	1,000	6.95-8.0	80	130 (2007)	930
Renewable Resource Development (1)	1997A	2,000	6.8-8.0	80	210 (2013)	2,000
Long-Range Bldg Program	1997B	12,640	4.6-5.0	650	595 (2018)	12,640
Wastewater Treatment Works	1998A	3,510	3.75-5.15	-	260 (2019)	3,510
Long-Range Bldg Program	1998B	34,545	3.5-4.85	1,195	2,555 (2018)	34,545
Information Technology	1998C	41,390	4.5-5.0	4,330	4,075 (2008)	41,390
Long-Range Bldg Program	1998D	14,855	4.4-5.0	220	1,720 (2015)	14,855
Energy Conservation Program (2)	1998E	1,250	3.6-4.6	115	150 (2008)	1,250
Total General Obligation Debt		$ 245,635		$ 11,075		$ 187,005
Special Revenue Bonds						
Water Conservation (3)	-	100	3.463-5.0	3	3 (2016)	62
Water Development Program (4)	1987C	1,215	6.9-7.6	55	120 (2008)	845
Broadwater Power Project (4)(6)	1990A	3,800	9.5	395	505 (2002)	1,795
Broadwater Power Project (4)(5)	1991A	21,735	6.4-6.875	-	2,135 (2018)	21,735
Water Development Program (4)	1992A	11,955	5.0-6.1	845	1,250 (2006)	8,250
Water Development Program (4)	1992B	9,375	4.75-6.0	340	795 (2013)	7,910
Department of Transportation	1993	72,375	4.5-5.05	10,865	3,705 (2004)	63,375
Renewable Resource Program (4)	1996A	14,985	4.0-5.2	950	110 (2017)	13,225
Renewable Resource Program (4)	1997A	1,205	6.0-7.3	30	110 (2017)	1,205
Renewable Resource Program (4)	1997B	2,660	3.75-5.375	80	210 (2017)	2,660
Developmental Center Project (9)	1994	13,100	5.1-6.4	320	1,015 (2019)	12,435
State Hospital Project (9)	1997	25,915	4.0-5.0	-	6,775 (2022)	25,915
Total Special Revenue Bonds		$178,420		$13,883		$159,412
Middle Creek Dam Project (7)		$ 2,990	8.125	$ 32	124 (2034)	$ 3,136
Treasure State Endowment (8)		4,134	5.85	408	778 (2001)	2,677
Natural Resource Damage Lit. Pgm. (13)		9,816	-	9,816	9,816 (1999)	9,816
Tongue River Dam Project (12)		8,390	-	-	-	8,390
Dept. of Justice INTERCAP Loan (11)		500	4.85	50	50 (2007)	450
Dept. Of Environmental Quality INTERCAP Loan (11)		1,212	4.75-4.85	100	75 (2008)	1,164
Total Notes Payable		$ 27,042		$10,406		$ 25,633
Total Special Revenue Debt						$185,045

(1) All Water Development Program Bonds and the Renewable Resource Development Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. Series 1988, 1989B, 1991A and 1993C bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
(2) Bonds issued for financing the design, construction and installation of energy conservation projects at various State buildings.
(3) Bonds sold to Farmers Home Administration.
(4) Issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes and project revenues.
(5) First payment of $795,000 is due in 2003.
(6) Bonds were sold to the Montana Board of Investments.
(7) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes $267,009 of interest owed.

(8) Board of Investments Treasure State Endowment loan from the Coal Tax Trust Fund to the State of Montana Department of Commerce.
(9) Montana Health Facility Authority Loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.
(10) Year of Maturity refers to fiscal year.
(11) Montana Board of Investments loans to Departments from the INTERCAP loan program.
(12) Northern Cheyenne Tribe loan to the Montana Dept. of Natural Resources & Conservation (DNRC). The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
(13) Board of Investments loan to the Department of Justice for the Natural Resource Damage Litigation Program. Interest accrues at .5% over the yield on the most recent issue of United States Government 30 Year Bonds. Loan repayment is secured by a pledge of amounts to be recovered in the litigation with Atlantic Richfield Company.

Board of Regents Issues Higher Education Units - Component Unit	Series	Amount Issued	Interest Range (%)	Principal Payments FY 1999	In Year of Maturity	Balance June 30, 1998
University of Montana-Missoula (U of M)	1993A/1995B 1995C/1996D 1998E	$103,253	3.4-6.9	$2,844	$ 540 (2021)	$ 95,933
Montana State University-Bozeman (MSU)	1987A/1993A 1996D/1996B 1998E/1998F	87,677	3.65-8.0	2,590	5,590 (2022)	82,702
Montana Tech of the U of M	1995C/1996D 1998E	14,717	3.8-5.75	500	120 (2020)	14,057
MSU - Billings	1996D/1998F	18,955	3.6-5.625	520	1,070 (2026)	18,230
MSU - Northern	1994C/1998F	3,450	3.65-6.0	160	100 (2015)	3,105
Western Montana College of the U of M (WMC)	1993A/1995B/ 1995C/1996D/ 1998E	7,762	3.4-6.9	99	15 (2020)	7,469
Helena College of Technology of The University of Montana (HCT)	1995B/1995C	767	4.1-6.4	42	16 (2018)	665
		$236,581		$6,755		$222,161
Add: Unamortized Premium						21
Less: Unamortized Discount						(2,300)
Total Higher Education Bonded Debt						$219,882
Higher Ed Nonbonded Debt						
U of M - Missoula, Bookstore Note		$ 500	Variable	$ -	$ 500 (2005)	$ 500
U of M - Missoula, INTERCAP Program Note		1,020	Variable	137	11 (2009)	905
U of M - First Interstate Mortgage		281	8.5	6	28 (2017)	275
MSU - Bozeman, Fiber Note		746	5.9	149	98 (2001)	406
MSU - Billings, SD #2 Note		876	N/A	95	95 (1999)	95
MSU - Northern, INTERCAP Program Note		1,579	Variable	204	189 (2007)	1,370
WMC - UM, INTERCAP Program Note		98	Variable	26	8 (2000)	34
WMC - UM, Mortgages Payable		70	6.5	4	6 (2009)	57
WMC - UM, Kurtz Property Payable		105	6.45	3	61 (2009)	101
MSU - College of Technology, Great Falls, Note		100	5.38	20	22 (2001)	63
Total Higher Education Nonbonded Debt		$ 5,375		$ 644		$ 3,806
TOTAL HIGHER EDUCATION FUNDS						$223,688

Debt service requirements (principal and interest) for long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds are as follows (in thousands):

Fiscal Year Ending June 30	General Obligation Debt	Special Revenue Bonds	Higher Ed Bonded Debt	Non-Bonded Debt	Total Requirements
1999	$ 20,577	$ 22,095	$ 17,212	$ 13,695	$ 73,579
2000	20,586	22,719	17,514	2,449	63,268
2001	20,493	22,682	17,997	1,509	62,681
2002	20,250	22,658	17,997	542	61,447
2003	19,725	22,853	18,013	533	61,124
2004+	171,769	118,124	283,093	13,838	586,824
Totals	$ 273,400	$231,131	$371,826	$32,566	$ 908,923

A summary of changes in long-term liabilities payable reported in the General Long-Term Obligations Account Group for the fiscal year ending June 30, 1998, is as follows (in thousands):

	Balance July 1, 1997	Additions(1)	Reductions	Balance June 30, 1998
Early Retirement Benefits	$ 1,244	$ -	$ 856	$ 388
Arbitrage Rebate Tax	73	82	-	155
Net Pension Obligation	3,074	-	3,074	-
General Obligation Debt	$ 96,620	$108,190	$ 17,805	$ 187,005
Special Revenue Debt	166,829	37,619	19,403	185,045
Totals	$ 267,840	$145,891	$ 41,138	$ 372,593

(1) Loan and Bond Proceed amounts recorded in the financial statements for General Obligation and Special Revenue Debt include the effects of bond discounts and premiums. The additions in long-term debt include new issues of bonds and loans with a face value of $145,809,437 which had a net premium of $1,458,198. Included in this amount is $2,908,296 for which loan proceeds were recognized in fiscal year 1997 and $3,200,000 for which loan proceeds were recorded directly in the ultimate receiving higher education fund.

D. Early Retirement Benefits Note - The 1993 Montana State Legislature granted an early retirement incentive. The incentive consisted of an additional three years of employer and employee contributions paid by the employer agency to the State of Montana Public Employees' Retirement System. The payments may be made over a period of time not to exceed 9 years at an interest rate of 8%. Debt Service requirements are as follows (in thousands):

	Principal Payments		
	FY 1999	In Year of Maturity	Balance June 30, 1998
Primary Government:			
General Obligation Debt	$ 50	$ 75	$ 388
Component Unit:			
Higher Education Units	10	14	59
TOTAL	$ 60	$ 89	$ 447

E. Refunded Bonds

On April 22, 1998, the Housing Authority, a Component Unit of the State of Montana, issued $51,780,000 Single Family Program Bonds, Series 1998A. A portion of these proceeds were used to partially refund the 1985A bond issue. The 1985A series had a total of $10,473,000 of bonds outstanding at June 30, 1997. On June 1, 1998, the Housing Authority redeemed $2,600,000 of the 1985A bonds. The costs related to the refunding totaling $64,535 were recognized in fiscal year 1998. These costs were not deferred and recognized over the shorter of the life of the life of the refunded bonds or the life of the refunding bonds due to the immaterial amount. The 1998A refunding resulted in an economic gain of $1,051,328 and a difference in cash flows of $1,245,499.

On April 15, 1998, the Montana Department of Administration issued $14,855,000 of Series 1998D, General Obligation Long-Range Building Program Refunding Bonds. The Department of Administration deposited the total $14,855,000 of proceeds with an escrow agent to be invested in federal securities to provide for future debt service payments. The transaction met the requirements of a legal defeasance and $13,890,000 of 1994 Series C bonds, maturing August 1, 2005 through August 1, 2014, were removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of $767,445 and an economic gain of $444,428.

In prior years, the State of Montana and the Board of Regents of Higher Education have issued general obligation and revenue refunding bonds, the proceeds of which were used to defease certain bond issues already outstanding. The proceeds of the refunding issues were placed in escrow accounts and invested in U.S. Treasury Obligations that, together with interest earned thereon, will be sufficient for future payment of principal and interest on the refunded issues. Accordingly, the debt is considered defeased for financial reporting purposes and the liability for the defeased bonds is not included in the financial statements. At June 30, 1998, the in-substance defeased bonds outstanding are as follows (in thousands):

General Obligation	$ 12,245
Special Revenue	4,460
Higher Education Revenue	33,208
Total	$ 49,913

F. Enterprise Funds

(1) Economic Development & Municipal Finance Consolidation Act Bonds (EDB) - This program is directed by the nine-member Board of Investments which is attached to the Department of Commerce for administrative purposes. This program assists Montana's small businesses and local governments in obtaining long-term, fixed rate financing through private Montana lending institutions. Outstanding obligations are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments FY 1999	Principal Payments In Year of Maturity	Balance June 30, 1998
Industrial Development Revenue Bonds (Pooled Loan) (a)	1984A	$ 70	7.0-10.75	$ 5	$ 15 (2000)	$ 20
Industrial Development Revenue Bonds (Pooled Loan) (a)	1985A,G,H	790	6.75-10.1	40	95 (2007)	530
Municipal Finance Consolidation Act Bonds (Irrigation Program) (b)	1988	4,976	6.60-7.75	485	130 (2014)	3,762
Economic Development Bonds (Conservation Reserve Enhancement Program) (c)	1991A-B	7,380	10.0-11.2	435	285 (2000)	720
Municipal Finance Consolidation Act Bonds (d)	1991	6,234	4.75-6.5	428	294 (2005)	2,412
TOTAL BONDS PAYABLE		$19,450		$ 1,393		$ 7,444
Conservation Reserve Enhancement Program (CRP Notes) (c)		8,107	7.5-9.92	1,033	433 (2007)	8,107
TOTAL BONDS/NOTES PAYABLE		$27,557		$ 2,426		$15,551

(a) These bonds, which may not aggregate more than $75 million, are limited obligations of the Board of Investments payable solely from and secured by certain revenues and assets pledged pursuant to an Indenture of Trust. The bonds do not constitute a debt, liability or legal obligation of the State of Montana. However, if the balance in the "Capital Reserve Account A" falls below the indenture requirement, the Governor is required to request the Legislature to appropriate funds to restore the balance. The Legislature may, but is not legally obligated to, appropriate funds to correct any such deficiency. Principal payments (accrued interest to be added) are due each March 15.

(b) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment levied against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The indenture does not permit the issuance of additional bonds.

(c) These bonds and notes were issued for the purpose of providing funds for the Board of Investments, State of Montana, to make loans to participating farmers and ranchers under its Conservation Reserve Enhancement Program. The Series 1991 Bonds are not in any way a debt or liability of the State of Montana, and neither the full faith and credit, nor the taxing power of the State of Montana is pledged to the payment of the principal of or interest on the Series 1991 Bonds. However, the 1991 Bonds are limited obligations of the Board of Investments. The Bond Anticipation Notes which matured on November 15, 1992, were reissued to correspond with maturities per the underlying loans. On November 15, 1994, eleven BAN's were reissued to comply with statutory requirements limiting the maturity of notes to five years from issuance date. The outstanding BANS as of November 15, 1996 were reissued as loans to comply with statutory requirements. The board now issues CRP bonds for the duration of the CRP contract purchased.

(d) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of participating Montana School Districts. The School District Refunding Bonds and the interest thereon are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments, and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the state is pledged to the payment of principal of or interest on the bonds.

Debt service requirements (principal & interest) for EDB are as follows (in thousands):

1999	2000	2001	2002	2003	2004+	Totals
$ 3,553	$3,107	$2,518	$2,296	$2,186	$8,017	$21,677

(2) **Internal Service Bonds/Notes Payable** - State agencies may obtain long-term financing for Internal Service Funds through the Board of Investments INTERCAP loan program. Outstanding obligations at June 30, 1998 are as follows (in thousands):

Department	Amount Issued	Interest Rate (%)	Principal Payments FY 1999	Principal Payments In Year of Maturity	Balance June 30, 1998
Department of Transportation - Motor Pool	$ 6,161	4.75-5.15	$ 1,224	1,210(2003)	$ 5,432
TOTAL BONDS/NOTES PAYABLE	$ 6,161		$ 1,224		$ 5,432

Debt service requirements (principal & interest) for Internal Service Funds are as follows (in thousands):

1999	2000	2001	2002	2003	2004+	Total
$1,399	$1,233	$1,242	$1,252	$ 480	-	$5,606

(3) **Board of Housing (BOH) (Housing Authority) - Component Unit - Revenue Bonds** - The Montana Board of Housing is authorized to have an aggregate of $975 million of housing mortgage bonds outstanding. The bonds are payable from mortgage loan repayments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. Statutory provisions exist wherein the Governor shall include in the executive budget submitted to the legislature the sum required to fund possible future deficiencies in required reserves; however, the legislature is not legally required to appropriate funding for such deficiencies. None of the outstanding bonds were issued under these provisions. BOH Revenue Bonds (net) outstanding at June 30, 1998, are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments FY 1999	Principal Payments In Year of Maturity	Balance June 30, 1998
Single Family I	1997A	$ 91,360	4.0-6.15	$ 140	$ 955 (2038)	$ 91,295
Subtotal		$ 91,360		$ 140		$ 91,295
Single Family II	1983C	$114,998	5.75-10.7	$ -	$ 2,305 (2010)	$ 18,272
	1984A	75,002	7.0-10.375	-	915 (2010)	1,201
	1985A	40,000	5.5-9.75	697	4,975 (2016)	7,938
	1985B	74,997	5.7-9.75	-	360 (2011)	3,250
	1992RA	22,520	5.65-6.5	-	10 (2033)	22,520
	1994A	25,725	3.1-6.1	1,525	525 (2025)	17,810
	1994B	40,815	3.8-6.9	2,040	520 (2025)	24,735
	1994C	20,000	4.5-6.8	210	280 (2027)	9,185
	1995A	33,580	4.75-6.55	415	875 (2027)	26,470
	1995B	88,000	4.2-6.4	640	1,460 (2036)	86,535
	1996A	65,000	4.7-6.375	405	2,285 (2029)	64,265
	1998A	51,780	4.0-5.45	-	305(20331)	51,780
Subtotal		$652,417		$ 5,932		$333,961
Single Family III	1988B1-B2	$ 25,000	6.0-8.9	$ 195	$ 240 (2020)	$ 6,930
Single Family IV	1989A1-A2	25,000	7.0-9.2	130	350 (2020)	7,780
Single Family V	1990A1-A2	25,000	6.2-8.525	245	545 (2021)	9,080
Single Family VI	1990B1-B2	25,000	6.3-8.5	245	600 (2022)	10,115
Single Family VII	1990C1-C2	25,000	6.55-8.95	235	595 (2022)	9,500
Single Family VIII	1991A1-A2	25,000	5.2-8.275	330	795 (2022)	12,130
Single Family IX	1991B1-B2	25,000	5.5-8.4	310	815 (2023)	12,875
Single Family X	1992A1-A2	25,000	4.45-7.85	345	820 (2023)	14,945
Multifamily	1978A	4,865	6.125	75	645 (2020)	4,105
	1992A	9,725	2.95-6.55	180	50 (2024)	8,970
	1996A	890	4.10-6.15	15	60 (2027)	875
Subtotal		$ 15,480		$ 270		$ 13,950
TOTAL		$959,257		$ 8,377		$522,561
Add: Deferred amount on refunding						805
Add: Unamortized bond premiums						47
TOTAL BOH BONDS PAYABLE (net)						$523,413

Debt service requirements (principal & interest) for all BOH programs are as follows (in thousands):

1999	2000	2001	2002	2003	2004+	Total
$39,668	$39,959	$40,815	$40,984	$43,588	$948,182	$1,153,196

G. **No-Commitment Debt** - Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

(1) **Montana Board of Investments (BOI)** - The BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. The industrial revenue bonds issued by BOI do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1998, outstanding industrial revenue bonds are as follows (in thousands):

Project	Date of Issue	Amount Issued	Amount Outstanding
Montana Cenex	August 1985	$ 3,925	$ 3,925
Colstrip	October 1989	60,800	60,800
Yellowstone Energy (BGI)	July 1993	118,345	118,345
Total		$183,070	$183,070

(2) **Beginning Farm Loan Program** - The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 1998, is as follows:

Jorgensen Project - issued $81,600; outstanding $24,579.

(3) **Montana Health Facility Authority (MHFA) - Component Unit** - The MHFA is authorized to issue bonds and notes to finance projects for qualifying health institutions. The following obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1998, the MHFA had issued bonds and notes as follows (in thousands):

Project	Date of Issue	Amount Issued	Amount Outstanding
West Mont Home Health Services	June 1985	$ 440	$ 128
MHFA 1985 Pooled Loan Projects	December 1985	66,900	35,900
Community Provider Pooled Loans	October 1988	1,461	557
Kalispell Regional Hospital	June 1990	14,475	11,465
Community Provider Pooled Loan	July 1990	5,858	4,453
Deaconess Medical Center (Series A)	February 1991	18,000	18,000
Deaconess Medical Center (Series B)	February 1991	18,000	18,000
Sisters of Providence	May 1991	51,535	43,300
Deaconess Medical Center	September 1991	32,650	27,850
Deaconess Medical Center	September 1991	7,000	2,220
Community Provider Pooled Loans	September 1991	3,944	3,139
Hospital Pooled Loans	August 1992	4,645	2,795
Richland Opportunities	January 1993	200	170
Bozeman Deaconess Foundation	June 1993	14,900	11,085
Sisters of Charity	January 1994	50,915	43,690
Deaconess-Billings Clinic	January 1994	58,870	58,870
Residential Support Services	March 1994	50	41
Mineral Community Hospital	March 1994	39	7
Community Memorial Hospital (1)	October 1994	570	245
St. John's Retirement Home	October 1994	2,000	2,000
North Valley Hospital (Series C) (1)	October 1994	695	295
North Valley Hospital (Series D) (1)	October 1994	1,310	1,015
St. John's Retirement Home	October 1994	300	70
Northern MT(1)	October 1995	5,645	5,145
Northern MT	November 1995	6,090	5,900
Livingston Hospital	May 1995	559	242
Toole County Hospital	August 1996	1,635	1,555
Marcus Daily Memorial Hospital	August 1996	1,860	1,770
Glendive Community Hospital	August 1996	1,590	1,515
Mission Ridge	August 1996	17,835	17,835
Community Medical Center-Missoula	August 1996	20,730	19,985
Community Medical Center-Missoula	August 1996	2,313	1,591
Benefis	September 1996	16,680	15,080
St. Peter's Hospital	January 1997	19,875	18,240
Regional services(Beartooth Industries)	September 1997	260	256
Alternatives, Inc.	November 1997	2,925	2,925
Big Horn	February 1998	1,425	1,425
Lewis & Clark County(Cooney)	February 1998	1,730	1,730
North Valley	February 1998	1,890	1,890
Lewis & Clark County	February 1998	860	860
Sisters of Charity	March 1998	137,800	137,800

Project	Date of Issue	Amount Issued	Amount Outstanding
EMC MHC	May 1998	44	36
BSW, Inc.	May 1998	36	36
Opportunity Resources, Inc.	June 1998	400	400
Total		$596,939	$521,511

(1) The Board of Investments (BOI) and the MHFA have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the MHFA funds sufficient to ensure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund, a Trust Fund Bond Pool participant, or any other legally available funds administered by the BOI.

13. INTERFUND TRANSACTIONS

During the course of normal operations, the State has numerous transactions between funds to finance operations, provide services, construct assets, service debt, etc. Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. To the extent that certain transactions between funds are not paid or received as of June 30, 1998, interfund receivables/payables (Due From/To Other Funds) are recorded. The schedule below presents all interfund balances outstanding at June 30, 1998, (in thousands) and interfund activity for the fiscal year then ended:

Within Primary Government and Component Units	Interfund Loans/Advances Receivable	Interfund Loans/Advances Payable	Due From Other Funds	Due To Other Funds	Operating Transfers In	Operating Transfers Out	Residual Equity Transfers In	Residual Equity Transfers Out
General	$ 34,912	$ -	$ 75,722	$ 23,321	$126,773	$ 5,133	$ 620	$ -
Special Revenue								
State	35,575	8,017	27,204	9,826	33,375	40,996	1,216	-
Federal	173	60,916	8,212	12,410	43	10,375	-	14,306
Debt Service								
Coal Tax Bonds	-	-	123	8	498	485	1,025	-
Long-Range Building Program	-	-	114	515	6,934	1,935	197	-
Water Development	-	-	-	420	74	530	1,281	-
Highway Revenue Bonds	-	-	-	-	13,568	-	-	-
Health Care Debt Service	-	-	59	1,656	9,029	-	-	1,656
DPHHS Building	-	-	4	-	-	-	-	-
Energy Bonds	-	-	4	103	-	103	-	-
Capital Projects								
Long-Range Building Program	-	-	856	272	18,174	2,762	-	860
Capital Land Grant	-	-	18	1	916	363	-	-
Information Technology Project	-	-	44	194	-	-	-	-
Enterprise								
Economic Development Bonds	-	-	-	8	-	-	-	-
Liquor Warehouse	-	-	-	6,423	-	17,911	-	-
Hail Insurance	-	-	7	19	-	42	-	-
State Lottery	-	-	10	2,313	-	6,570	-	-
Prison Ranch	-	-	100	54	-	-	-	-
Prison Industries	-	-	134	27	-	-	-	-
Uninsured Employers	-	-	1	21	-	-	-	-
Subsequent Injury	-	-	-	1	-	-	-	3,000
Montana Career Info. Systems	-	-	9	9	-	1	-	-
Sec. of State Business Services	-	-	53	54	-	-	-	-
Historical Soc. Publications	-	-	1	44	54	-	-	-
Surplus Property	-	-	-	10	-	-	-	-
West Yellowstone Airport	-	-	2	4	16	-	-	-
Local Govt. Audits	-	-	-	13	-	-	-	-
Def. Comp. Administration	-	-	1	1	-	-	-	-
Flexible Spending Administration	-	75	10	-	-	-	-	-
Internal Service								
Highway Equipment	-	-	430	106	-	-	-	-
Employees' Group Benefits	176	-	6	29	-	-	-	-
ISD	-	-	1,584	218	3	62	-	-
MUS Group Insurance	-	-	23	5	-	-	-	-
Administration Insurance	-	-	-	110	16	258	-	-
FWP Equipment	-	-	287	2	-	-	143*	-
Motor Pool	-	1,100	207	-	-	-	-	-
Administration Supply	-	-	145	11	-	-	-	-
Publications & Graphics	-	-	353	51	-	-	-	-
Buildings & Grounds	-	-	79	119	59	322	-	-
Labor Central Services	-	-	101	46	-	-	-	-

Within Primary Government and Component Units	Interfund Loans/Advances Receivable	Interfund Loans/Advances Payable	Due From Other Funds	Due To Other Funds	Operating Transfers In	Operating Transfers Out	Residual Equity Transfers In	Residual Equity Transfers Out
Commerce Central Services	-	-	132	78	-	-	-	-
DEQ Indirect Cost Pool	-	-	322	75	-	-	-	-
FWP Warehouse Inventory	-	-	4	-	-	-	-	-
Mail & Messenger	-	100	54	10	-	-	-	-
Payroll Processing	-	-	-	46	-	-	-	-
Warrant Processing	-	-	62	16	-	-	-	-
Investment Division	-	-	28	58	-	-	-	-
Aircraft Operation	-	-	35	9	355	-	-	-
Justice Legal	-	115	120	98	-	-	-	-
OPI Central Services	-	-	105	32	-	-	-	-
Personnel Training	-	-	17	8	-	-	-	-
Records Management	-	-	42	64	-	-	-	-
FWP Office Supply	-	-	-	1	-	-	-	-
Debt Collections	-	-	1	7	-	-	-	-
Administration Legal	-	-	2	3	-	-	-	-
Local Govt Administration	-	-	5	5	-	-	-	-
Natural Gas Procurement	-	-	-	1	-	-	-	-
Administration DP Unit	-	-	3	3	-	5	-	-
Expendable Trusts								
Unemployment Insurance	-	20	1	-	-	-	-	-
Rural Development	-	-	2	2	-	-	-	-
Escheated Property	-	-	-	-	-	330	-	-
Historical Society General	-	-	-	3	-	8	-	-
Wildlife Mitigation	-	5	-	9	-	50	15,340	-
Employees Deferred Comp.	-	176	-	1	-	-	-	-
Nonexpendable Trusts								
Coal Tax Trust	-	41	180	38,372	-	62,686	-	-
Land Grants	-	-	328	6,794	24	43,248	-	-
Resource Indemnity	-	-	14	8,304	-	14,627	-	-
Parks Trust	-	-	1	265	-	981	-	-
Cultural Trust	-	-	-	203	-	298	-	-
Real Property	-	1	20	155	-	503	-	-
Noxious Weed Management	-	-	1	110	-	446	-	-
Thomas Teakle Trust	-	-	-	-	-	3	-	-
Historical Society Acquisitions	-	-	-	-	-	2	-	-
Agency								
Investment Pool	-	-	-	23	-	-	-	-
Performance Deposits	30	-	-	529	-	-	-	-
Central Payroll	-	-	10,617	582	-	-	-	-
Custodial Accounts	-	-	-	2	-	-	-	-
Unissued Warrants	-	-	111	2,253	-	-	-	-
Child Support Collections	-	300	-	-	-	-	-	-
Uncleared Collections	-	-	14	18,817	-	-	-	-
Debt Collection	-	-	52	48	-	-	-	-
COMPONENT UNITS								
Enterprise Funds								
Housing Authority	-	-	-	4	-	-	-	-
State Comp. Insurance - New	-	-	1,620	1	-	-	-	63,800
State Comp. Insurance - Old	-	-	48	1,549	1	1	63,800*	-
Pension Trusts								
Teachers Retirement	-	-	532	-	-	-	-	-
PERS	-	-	1,768	1,288	-	-	-	-
Municipal Police	-	-	-	34	-	-	-	-
Firefighters Unified	-	-	4,796	27	-	-	-	-
Sheriffs	-	-	2	24	-	-	-	-
Highway Patrol	-	-	-	13	-	-	-	-
Judges	-	-	-	3	-	-	-	-
Game Wardens	-	-	15	12	-	-	-	-
Volunteer Firefighters	-	-	-	23	-	-	-	-
Higher Education								
Current Funds								
General Operating	600	230	4,989	5,864	975	1,573	-	-
Designated	3,425	17	7,529	1,901	882	1,966	10	-
Auxiliary	5	289	451	1,154	404	11,049	-	-
Restricted	80	3,605	759	6,366	164	6,433	-	10
Fiduciary								
Student Loans	-	-	21	7	-	5	-	-
Endowments	-	-	7	40	24	3	-	-

Within Primary Government and Component Units	Interfund Loans/Advances Receivable	Interfund Loans/Advances Payable	Due From Other Funds	Due To Other Funds	Operating Transfers In	Operating Transfers Out	Residual Equity Transfers In	Residual Equity Transfers Out
Agency	-	-	4,491	1,956	-	-	-	-
Plant								
Unexpended	192	265	394	637	12,234	8,830	-	-
Renewal & Replacement	239	247	252	268	8,105	933	-	-
Retirement of Indebtedness	239	-	835	104	13,139	4,011	-	-
Investment in Plant	-	127	-	-	-	-	-	-
Totals	$ 75,646	$ 75,646	$156,685	$156,685	$245,839	$245,839	$ 83,632	$ 83,632

*These Residual Equity Transfers are reflected in Contributed Capital on the Balance Sheet.

Between Primary Gov't. and Component Units	Due From Comp. Units	Due To Primary Govt	Due To Comp. Units	Due From Primary Govt	Transfer From Comp. Units	Transfer To Primary Govt	Transfer To Comp. Unit	Transfer From Primary Govt
General	$ 6,949	$ -	$ 5,859	$ -	$10,000	-	$101,789	-
Special Revenue								
State	618	-	869	-	-	-	14,030	-
Federal	26	-	253	-	-	-	-	-
Capital Projects								
Long Range Building	-	-	30	-	-	-	-	-
Enterprise								
Economic Develop Bonds	1	-	-	-	-	-	-	-
State Lottery	-	-	3	-	-	-	-	-
Prison Industries	23	-	-	-	-	-	-	
Subsequent Injury	20	-	-	-	-	-	-	-
Flex Spending Admin.	48	-	-	-	-	-	-	-
Internal Service								
ISD	187	-	6	-	-	-	-	-
MUS Group Insurance	384	-	5	-	-	-	-	-
FWP Equipment	1	-	-	-	-	-	-	-
Motor Pool	1	-	-	-	-	-	-	-
Administration Supply	18	-	-	-	-	-	-	-
Publications & Graphics	13	-	-	-	-	-	-	-
Commerce Central Services	8	-	-	-	-	-	-	
DEQ Indirect Cost Pool	5	-	-	-	-	-	-	-
Warrant Processing	19	-	-	-	-	-	-	-
Investment Division	42	-	1	-	-	-	-	-
Justice Legal	1	-	-	-	-	-	-	-
OPI Central Services	1	-	-	-	-	-	-	-
Records Management	13	-	-	-	-	-	-	-
Expendable Trusts								
Escheated Property	-	-	1	-	-	-	-	-
Employees Deferred Comp.	87	-	-	-	-	-	-	-
Nonexpendable Trusts								
Land Grants	-	-	354	-	-	-	1,977	-
Agency								
Land Grant Interest	-	-	2	-	-	-	-	-
Central Payroll	380	-	1,854	-	-	-	-	-
Child Support Collections	7	-	-	-	-	-	-	-
Uncleared Collections	24	-	-	-	-	-	-	-
Debt Collection	1	-	9	-	-	-	-	-
COMPONENT UNITS								
Enterprise Funds								
Housing Authority	-	39	-	-	-	-	-	-
Health Facilities Authority	-	6	-	1	-	-	-	-
State Compensation Ins. - New	-	705	-	6	-	10,000	-	-
State Compensation Ins. - Old	-	90	-	470	-	-	-	-
Pension Trusts								
Teachers Retirement	-	6,530	-	26	-	-	-	-
PERS	-	60	-	1,764	-	-	-	-
Municipal Police	-	-	-	5,265	-	-	-	-
Sheriffs	-	-	-	8	-	-	-	-
Highway Patrol	-	-	-	190	-	-	-	-
Judges	-	-	-	40	-	-	-	-
Game Wardens	-	-	-	56	-	-	-	-

Between Primary Gov't. and Component Units	Due From Comp. Units	Due To Primary Govt	Due To Comp. Units	Due From Primary Govt	Transfer From Comp. Units	Transfer To Primary Govt	Transfer To Comp. Unit	Transfer From Primary Govt
Higher Education								
Current Funds								
General Operating	-	426	-	84	-	-	-	115,803
Designated	-	430	-	182	-	-	-	-
Auxiliary	-	16	-	49	-	-	-	239
Restricted	-	38	-	783	-	-	-	-
Fiduciary								
Student Loans	-	-	-	2	-	-	-	-
Agency	-	480	-	5	-	-	-	-
Plant								
Unexpended	-	33	-	155	-	-	-	792
Renewal and Replacement	-	23	-	-	-	-	-	38
Retirement of Debt	-	1	-	160	-	-	-	924
Totals	$ 8,877	$ 8,877	$ 9,246	$ 9,246	$10,000	$ 10,000	$117,796	$117,796

14. FUND DEFICITS

The following funds have a deficit fund balance/retained earnings found on the operating statements for June 30, 1998, (in thousands):

Primary Government	Deficit
Enterprise Fund	
West Yellowstone Airport	$ (660)
Department of Agriculture	(177)
Internal Service Fund	
Administration Insurance	(6,433)
Payroll Processing	(87)
Justice Legal	(110)
Administration - Legal	(8)
Local Government Admin	(33)
Total Fund Deficits - Primary Government	$ (7,508)
Component Units	
Proprietary Fund Type	
State Comp. Ins. (Old Fund)	$ (225,053)
Higher Education Funds	
General Operating Subfund	(22,169)
Total Fund Deficits - Component Units	$ (247,222)

The deficit retained earnings in the Administration Insurance Fund and the State Compensation Insurance-Old Fund are due to recording the expense for estimated claims including claims incurred but not reported. Refer to Note 9 for further discussion of these funds. The deficit fund balance in the General Operating Subfund is due to the expense associated with the recording of compensated absences.

Within the state and federal special revenue fund types, there are various activities that are consolidated for financial reporting. Although the total unreserved fund balances are positive for these funds, there are activities within the funds that taken individually would report a negative unreserved fund balance. However, other activities have significant enough positive balances to result in a positive presentation on a combined basis. A portion of the negative unreserved fund balance for the individual activities are a result of reserving fund balance for encumbrances. Activities that individually result in negative unreserved fund balance due to encumbrance reserves total $1,410,417 and $3,693,660 for the state and federal special revenue funds, respectively.

15. RESERVED FUND BALANCES FOR TRUSTS

The Special Revenue trust reserved fund balance is attributed to the Fish, Wildlife and Parks Wildlife Mitigation Trust Fund and the Department of Environmental Quality Reclamation - OSM Trust Fund.

The Coal Tax Trust reserved fund balance in the Nonexpendable Trust Fund consists of the following (in thousands): Permanent Coal Tax Trust $542,422, Treasure State Endowment Fund $64,304 and the School Bond Contingency Fund $2,136. All other Nonexpendable Trust Fund reserved balances, $505,244, are Reserved for Trust Principal.

16. SEGMENT INFORMATION

Selected financial information concerning all enterprise operations for the fiscal year ended June 30, 1998, is as follows (in thousands):

	Economic Development Bonds	Liquor Warehouse	Hail Insurance	State Lottery	Other Enterprise*	Total Enterprise
Operating Revenues:						
Charges for Services	$ 7	$ 37,359	$ -	$ 29,860	$ 8,945	$ 76,171
Investment Earnings	674	-	368	251	248	1,541
Financing Income	2,915	-	-	-	-	2,915
Contributions/Premiums	-	-	1,751	-	4,888	6,639
Taxes	-	10,590	-	-	-	10,590
Other Revenues	-	80	168	8	4,445	4,701
Operating Expenses:						
Depreciation	3	28	-	59	292	382
Amortization	-	-	-	-	8	8
Other	3,155	29,959	1,956	23,424	15,948	74,442
Operating Income (Loss)	438	18,042	331	6,636	2,278	27,725
Nonoperating Revenues (Expenses)	-	(230)	-	-	(208)	(438)
Oper. Trans. In (Out)	-	(17,911)	(42)	(6,570)	69	(24,454)
Net Income (Loss)	$ 438	$ (99)	$ 289	$ 66	$ 2,139	$ 2,833
Current Assets	$ 5,601	$ 11,893	$ 4,773	$ 4,268	$ 17,479	$ 44,014
Current Liabilities	(1,373)	(10,677)	(1,537)	(5,918)	(659)	(20,164)
Net Working Capital	$ 4,228	$ 1,216	$ 3,236	$ (1,650)	$ 16,820	$ 23,850
Total Assets	$ 68,577	$ 12,938	$ 8,614	$ 6,528	$ 22,990	$119,647
Total Liabilities	65,517	10,736	2,879	6,290	2,543	87,965
Fund Equity	$ 3,060	$ 2,202	$ 5,735	$ 238	$ 20,447	$ 31,682
Long-Term Obligations	$ 64,144	$ 59	$ 1,342	$ 372	$ 1,884	$ 67,801
Cur. Yr. Capital Cont.	$ -	$ (1)	$ -	$ (1)	$ (592)	$ (594)
Acquisition of Fixed Assets	$ -	$ 141	$ -	$ 20	$ 219	$ 380
Disposal of Fixed Assets	$ 30	$ 455	$ 23	$ 153	$ 1,297	$ 1,958

1. The Economic Development Bond Program, administered by the Board of Investments, assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

2. The Liquor Division of the Department of Revenue administers the State liquor operations (Liquor Warehouse). This fund accounts for liquor licensing activities and the sale and distribution of alcoholic beverages.

3. The Hail Insurance Fund provides benefit payments to producers for crop acreage insured and accounts for premium assessments paid (See Note 9).

4. The State Lottery accounts for the operations of Montana's lottery which began in June 1987. Included in Other Assets is $1,880,647 which is not a current asset.

* Other Enterprise is composed of the following funds (listed by administering agency):

Department of Agriculture
Department of Agriculture

Department of Commerce
Local Government Audits

Department of Transportation
West Yellowstone Airport

Secretary of State
Business Services

Montana Historical Society
Historical Society Publications

Department of Labor and Industry
Montana Career Info. System
Subsequent Injury
Uninsured Employers

Department of Corrections
Prison Ranch\ Industries
Women's Prison Industries
Swan River Vocational Training

Department of Administration
Surplus Property
Flexible Spending
Deferred Compensation Admin.

Judiciary
Judiciary Law Library

17. CONTRIBUTED CAPITAL

During fiscal year 1998, contributed capital changed by the following amounts (in thousands):

	PRIMARY GOVERNMENT		COMPONENT UNITS
	Enterprise Fund	Internal Service Fund	Proprietary Fund Type
Beginning Balance - July 1, 1997	$ 5,014	$ 5,769	$ 90,668
Additions:			
Contributed Capital Transfers-in	1,010	2,931	63,800
Deletions:			
Contributed Capital Transfers-out	(1,604)	(1,482)	-
Ending Balance - June 30, 1998	$ 4,420	$ 7,218	$ 154,468

18. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Approximately 50.51% of the Regents' outstanding loan volume or $286,839,832 is held by MHESAC. Lewis & Clark County owns the building which houses the staff of the Board of Regents and the Office of the Commissioner of Higher Education (OCHE). Upon satisfaction of the financing obligations, MHESAC has the option to purchase the building. OCHE pays MHESAC for its share of various costs such as personnel costs for employees of MHESAC who perform services that are of direct benefit to the State; equipment leases; computer maintenance costs; utilities and other shared operating expenses. The total amount of these expenses for fiscal year 1998 amounted to $393,226. MHESAC employees are allowed to participate in the University System group insurance plan; MHESAC also reimburses OCHE for services such as telephones, postage and computer supplies. During fiscal year 1998 MHESAC paid OCHE a total of $470,380.

There is a foundation affiliated with each university and college unit which solicits contributions and manages those funds for the benefit of that unit. Although each foundation is a separate legal entity, each unit exercises significant influence over its affiliated foundation. The units generally provide the foundations with office space, some staff and related office expenses and an annually contracted fee. The units paid their foundations approximately $616,905 in fiscal year 1998. In return the universities received from their foundations approximately $10,002,968 during fiscal year 1998 for scholarships and academic/institutional support. In addition to support from their affiliated foundations, the University of Montana-Missoula, Montana State University-Billings and Montana State University-Bozeman received a total of $1,710,581 from their related athletic associations/booster organizations and affiliated museums and public broadcasting radio stations.

The Department of Administration, Personnel Division, has a staff member that serves as Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this Association $1,000 per year to maintain its membership. This staff member also serves as Director of Community Health Options which is a health purchasing cooperative whose purpose is to consolidate demand for health coverage to encourage more cost-effective health plans, negotiate more favorable rates and create economies of scale by combining administration of health care plans. The Department made a one-time payment of $45,000 in October 1996 as its share of the health purchasing cooperative.

19. CONTINGENCIES

A. Litigation - The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

The Crow Tribe filed suit in 1978 in federal district court seeking a declaration that Montana's coal severance and gross proceeds taxes are invalid as applied to the production of coal on the Crow Reservation and to the production of coal owned by the Tribe located in an off-reservation area, known as the "Crow ceded area" or "ceded strip", which lies roughly between the northern boundary of the reservation and the Yellowstone River. The amount of coal reserves falling within these categories has not been precisely determined. The taxes were alleged to be invalid under a variety of theories, of which the most prominent were that the state taxes conflict with federal policy by preventing the marketing of Crow coal and infringe on tribal sovereignty by depriving the Tribe of revenue needed to provide governmental services to the Crow people. In addition to a declaration that the taxes were invalid, the Tribe sought restitution for an amount equal to the severance and gross proceeds taxes paid by Westmoreland Resources, Inc. (Westmoreland), the only company currently mining coal claimed by the Tribe, together with the interest which accrued to the Coal Severance Tax Trust Fund on the amount of taxes paid.

In January 1983, the court ordered Westmoreland's future severance tax payments placed in escrow pending the outcome of the litigation. The State has received no severance tax payments from Westmoreland with respect to the coal mined on the ceded strip since the entry of this order. Prior to 1983, Westmoreland's annual severance tax payments varied from a low of $5.407 million in 1976 to a high of $7.078 million in 1979.

In June 1987, the Ninth Circuit Court of Appeals ruled that Montana is preempted from applying its severance and gross proceeds taxes on coal within the ceded strip held in trust for the Crow Tribe and on coal mined on the reservation. In August 1987, the State docketed an appeal of the decision to the United States Supreme Court, and in January 1988, that Court summarily affirmed the Court of Appeals' judgment.

As a result of the Supreme Court's affirmance, two principal issues remained in the case, one of which has been resolved. The first issue involved the appropriate disposition of the escrowed monies, to which the State disclaimed any interest after the Supreme Court's decision. The district court concluded in September 1988 that these monies should be paid to the United States in trust for the Tribe. The escrowed funds totaling $30.1 million were distributed in May 1989 to the United States.

The second issue involved tax monies paid by Westmoreland to the State but not escrowed. Their amount, exclusive of interest, is approximately $46.8 million in severance taxes and $11.4 million in gross proceeds taxes. The Tribe and the United States, which had intervened on the Tribe's behalf in 1983, claimed those taxes under a restitution theory. They additionally sought prejudgement interest on the tax amounts which, as of March 31, 1994, was estimated at $214.1 million for the severance tax and $40.7 million on the gross proceeds tax. Trial on their claim was held in April and May 1994, and in November 1994, the district court ruled in the State's favor. In August 1996, however, a three-judge panel of the Ninth Circuit Court of Appeals reversed the District Court's ruling and ordered restitution of the coal severance taxes. It also remanded the matter for determination of whether the Tribe and the United States were entitled to prejudgment interest and if so, the amount of such interest. As of June 30, 1996, the estimated amount of prejudgment interest, using the Tribe and United States' method of calculation, was approximately $320.27 million with respect to the severance taxes and $64.4 million with respect to the gross proceeds taxes.

In September 1996 the State filed a petition for rehearing with a suggestion for rehearing en banc directed at that portion of the Court of Appeals' August opinion awarding restitution of the severance and gross proceeds taxes to the Tribe and the United States. In October 1996 the court modified the opinion to refer to one issue raised in the State's petition and then denied the petition in February 1997. The State filed a petition for writ of certiorari with the United States Supreme Court in May 1997, and the Court granted the petition on October 14, 1997.

In May 1998 the Supreme Court reversed the Court of Appeals' judgement and remanded the case. It held that the Tribe and the United States were not entitled to restitution of all taxes paid by Westmoreland under traditional equitable principles and further concluded that the evidence did not establish entitlement to recovery under an actual damages theory. The Court stated, however, that the Tribe and the United States "argued for total disgorgement" and that "they did not develop a case for relief of a different kind or size." The Court further stated that it did "not foreclose the District Court from any course the Federal Rules (of Civil Procedure) and that Court's thorough grasp on this litigation lead it to take" but was "satisfied that the Court of Appeals improperly overturned the District Court's judgement." The Tribe filed a petition for rehearing that was denied in July 1998. On remand, the district court issued an order in October 1998 concluding that the Supreme Court had affirmed the November 1994 judgement and that the case was resolved absent the filing of meritorious post-judgement motions. The Tribe and the United States have filed motions seeking reconsideration of the order and a new trial with respect to whether they are entitled to recover Westmoreland's tax payments under a different theory than previously pursued. Their theory is based upon a concurring and dissenting opinion by Justice Souter in the Supreme Court decision. The Tribe and the United States additionally are seeking prospective, or nonmonetary, relief with respect to the validity of present severance and gross proceeds taxes whose rates are substantially lower than those invalidated earlier in the litigation. Those taxes are not currently being applied to Westmoreland's ceded strip coal production. The State believes that there are significant procedural and substantive difficulties with the motions and that they are not meritorious.

The State of Montana additionally is involved in two lawsuits with the potential for substantial recovery of monetary relief against private parties. The first is State of Montana v. Atlantic Richfield Co., No CV-83-317-H-PHG(D.Mont.), where natural resource damage claims have been asserted under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 with respect to environmental injury to Clark Fork River Basin. The State and Atlantic Richfield recently settled a portion of the case for $213 million, but other claims remain unresolved. The State received $15 million dollars from ARCO on June 26, 1998, to cover litigation costs through December 31, 1997. On November 2, 1998, the Department of Justice repaid the Natural Resource Damage Litigation Program loan in the amount of $12,053,868, including interest, to the Board of Investments. Atlantic Richfield has filed a counterclaim against the State, which could reduce future recovery or impose liability on the State in an amount greater than Atlantic Richfield's liability, but the State believes it has meritorious defenses to the counterclaim. Any recovery in this litigation must be used under federal law to further reclamation and recovery efforts or to offset attorney's fees and assessment costs incurred by the State.

The second lawsuit is State ex rel. Mazurek v. Phillip Morris, Inc., No CDV 97-306 (Mont. 1st Jud. Dist. Lewis & Clark County) where various claims have been filed against six tobacco manufacturers seeking recovery of an unspecified amount of damages, penalties and attorney's fees. The State recently settled its claims against one of the manufacturers Liggett & Meyers, Inc., for $1 million to be paid over a 20 year period. No counterclaims have been asserted against the State in this litigation. The total amount of monetary relief sought by the State against the remaining defendants has not been specified, but it could be substantial.

B. Federal Contingencies:

Federal Financial Assistance - The State receives federal financial assistance for specified purposes which are subject to review and audit in accordance with the Single Audit Act of 1996. Any disallowances resulting from these audits would become the liability of the State. There are no disallowances reported as of June 30, 1998.

USDA Commodities - In fiscal year 1998, the State distributed $5,543,081 in commodities. The value at June 30, 1998, of commodities stored in the State's warehouses is $2,258,219 for which the State is liable in the event of loss.

C. Miscellaneous Contingencies:

Commitment Fees - The Board of Investments (BOI) and the Montana Health Facility Authority (MHFA) have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the MHFA funds sufficient to ensure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 1998, is $34,675,000.

The BOI has issued INTERCAP bonds backed by commitments from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 1998, is $54,173,795.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 1998, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	Special Revenue	Debt Service	Nonexpendable Trust
Corporation	$ 4,953	$ -	$ -	$ -
Coal Severance	9,738	3,560	4,994	20,275
Oil & Gas	8,299	-	-	-
Resource Indemnity	-	531	-	451
Totals	$ 22,990	$ 4,091	$ 4,994	$ 20,726

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed 100% to the General Fund.

20. SUBSEQUENT EVENTS

On August 1, 1998, the Montana Health Facility Authority issued $19,630,000 of Hospital Facilities Revenue Bonds, Series 1998, for the Kalispell Regional Hospital Project.

On August 1,1998, the Montana Board of Housing issued $65,000,000 Single Family Program Bonds, 1998 Series B, for federally insured or guaranteed mortgage loans.

On September 1, 1998, the Montana Health Facility Authority issued $13,500,000 of Hospital Facilities Revenue Bonds, Series 1998, for the Bozeman Deaconess Health Services Project.

On September 16, 1998, the State Fund Board of Directors recommended to the Budget Director that the Old Fund Liability Tax could end on January 1, 1999. Subsequently, the Budget Director in compliance with 39-71-2505 (7), MCA, communicated to the Director of the Revenue Department that collection of the Old Fund Liability Tax could cease effective January 1, 1999.

On October 1, 1998, the State of Montana issued $3,065,000 of General Obligation Bonds (Drinking Water State Revolving Fund Program), Series 1998F, to finance and refinance drinking water facilities or improvements.

On October 27, 1998, the State issued $68,600,000 of Tax and Revenue Anticipation Notes, Series 1998, due June 30, 1999. The proceeds of the Notes provide cash to support expenditures from the general fund, pending the receipt of taxes and revenues, for the fiscal year ending June 30, 1999.

21. Year 2000 Issue

The year 2000 (Y2K) issue refers to the fact that many computer programs use only the last two digits to refer to a year. Therefore, both 1900 and 2000 will be referred to as "00". Computer programs have to be adjusted to recognize the difference between those two years or the programs will fail or create errors. Also, some programs may not be able to recognize that 2000 is a leap year. Further, Y2K could affect electronic equipment, such as environmental systems and elevators, containing computer chips that have date recognition features.

The State of Montana has been addressing Y2K issues relating to its computer systems and other electronic equipment for more than two years. Agencies have inventoried and analyzed all of their computer systems and report the status of their systems through a centralized reporting system maintained by the Information Services Division (ISD) of the Department of Administration.

ISD established the Y2K Project Team to assure that all ISD's systems were Y2K compliant and to encourage and facilitate state agency compliance. The main goals of the team are to promote awareness, perform compliance assessment, and develop a compliance plan. The awareness stage - establishing a budget and project plan, and the assessment stage - identifying non-compliant Y2K systems and components, have been completed.

ISD and other state agencies identified 705 systems, including hardware, software, firmware and application systems, that were date sensitive. The systems were categorized according to the level of disruption that could result if the system failed. This categorization resulted in the systems being considered "mission critical" or high priority, medium priority

and low priority. A plan was developed for each system detailing how the problem will be addressed (repair, replace or retire the system); as well as, a target date to have the system compliant.

A portion of the State's mission critical systems are considered Y2K compliant. The remainder are currently in the remediation stage - making the actual changes to existing systems and equipment, or the validation/testing stage - validating and testing the changes made during the remediation stage. A schedule of remediation and testing is prepared and tracked on a monthly basis by ISD. Scheduled completion for all systems is October 1999.

The State of Montana estimates $3.7 million has been committed for the 1998-99 biennium to address Y2K issues. In addition, the State is implementing a new accounting system and updating or replacing other financial systems. In fiscal year 1998, bonds which are recorded in the financial records were issued to purchase replacement systems or update current systems for the following:

Statewide Accounting System	$16.0 million
Statewide Budget System	.5 million
Integrated Revenue and Tax System	14.0 million
Accounts Receivable System	3.8 million
Unemployment Benefit Package	2.0 million
Corrections Computer System	1.9 million
Montana University System	3.2 million
TOTAL	$ 41.4 million

There is also concern over the Y2K readiness of water, sewer, natural gas and electricity distribution systems. The Montana Public Service Commission has issued a Notice of Inquiry to all regulated utilities in order to ensure continuing essential services.

The Montana University System (Component Units) are responsible for assessing and modifying their systems for Y2K compliance. These include administrative support systems as well as those that provide educational and research support. Remediation procedures are in progress and involve vendor upgrades, purchase of new systems and development, and changes by university staff.

Because of the unprecedented nature of the Y2K issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that Montana is or will be Y2K ready, that the remediation efforts will be successful in whole or in part, or that parties with whom Montana does business will be Y2K ready.

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Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana for the fiscal year ended June 30, 1998, and have issued our report thereon dated November 5, 1998. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the general purpose financial statements. Such information has been subjected to the audit procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

James H. Gillett, CPA
Deputy Legislative Auditor

November 5, 1998

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 1998

			AMOUNT
AGENCY FOR INTERNATIONAL DEVELOPMENT			
02.999	Education in Russia: Passed Through From Academy for Education		51,417
		TOTAL	$51,417
PEACE CORPS			
08.999	Miscellaneous Non-Major Grants		9,943
		TOTAL	$9,943
DEPARTMENT OF AGRICULTURE			
10.000	Feasibility Study-Bioscience Research		1,054
10.025	Plant and Animal Disease, Pest Control, and Animal Care		16,941
10.064	Forestry Incentives Program		26
10.069	Conservation Reserve Program		857
10.156	Federal-State Marketing Improvement Program: Passed Through From WUSATA		17,799
10.162	Inspection Grading and Standardization		30,278
10.206	Grants for Agricultural Research-Competitive Research Grants		9,466
10.218	Buildings and Facilties Program		5,617,507
10.224	Fund for Rural America-Research, Education, and Extension Activities		134,271
10.250	Agricultural and Rural Economic Research		3,727
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection		373,742
10.500	Cooperative Extension Service		3,201,738
10.501	Agricultural Telecommunications Program		26,177
10.550	Food Distribution		2,161,396
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children		12,536,762
10.558	Child and Adult Care Food Program		8,278,625
10.560	State Administrative Expenses for Child Nutrition		553,509
10.564	Nutrition Education and Training Program		166,834
10.567	Food Distribution Program on Indian Reservations		4,115,114
10.570	Nutrition Program for the Elderly (Commodities)		1,118,481
10.652	Forestry Research		90,805
10.664	Cooperative Forestry Assistance		897,008
10.665	Schools and Roads: Grants to States		8,634,448
10.699	Miscellaneous Non-Major Grants		14,127
10.769	Rural Development Grants		21,310
10.855	Distance Learning and Telemedicine Loans and Grants		4,954
10.901	Resource Conservation and Development		63,401
10.999	Miscellaneous Non-Major Grants		54,545
		TOTAL	$48,144,902

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 1998

		AMOUNT
CHILD NUTRITION CLUSTER		
10.553	School Breakfast Program	2,369,614
10.555	National School Lunch Program	13,512,453
10.556	Special Milk Program for Children	44,428
10.559	Summer Food Service Program for Children	459,674
	TOTAL	**$16,386,169**
EMERGENCY FOOD ASSISTANCE CLUSTER		
10.568	Emergency Food Assistance Program (Administrative Costs)	115,083
10.569	Emergency Food Assistance Program (Food Commodities)	372,365
	TOTAL	**$487,448**
FOOD STAMP CLUSTER		
10.551	Food Stamps	53,645,691
10.561	State Administrative Matching Grants for Food Stamp Program	6,159,147
	TOTAL	**$59,804,838**
DEPARTMENT OF COMMERCE		
11.300	Economic Development: Grants for Public Works and Infrastructure Development	35,031
11.303	Economic Development-Technical Assistance	89,584
11.307	Special Economic Development and Adjustment Assistance Program	23,385
11.552	Telecommunications and Information Infrastructure Assistance Program	405,944
11.611	Manufacturing Extension Partnership	469,625
11.612	Advanced Technology Program	1,029,506
	TOTAL	**$2,053,075**
DEPARTMENT OF DEFENSE		
12.106	Flood Control Projects	20,607
12.110	Planning Assistance to States	181,028
12.400	Military Construction National Guard	1,723,992
12.401	National Guard Military Operations and Maintenance Projects	5,865,562
12.630	Basic, Applied, and Advanced Research in Science and Engineering	18,899
12.900	Language Grant Program	19,903
12.999	Miscellaneous Non-Major Grants	47,073
	TOTAL	**$7,877,064**
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.228	Community Development Block Grant/States Program	9,667,578
14.231	Emergency Shelter Grants Program	228,612
14.239	Home Investment Partnerships Program	4,494,432
14.401	Fair Housing Assistance Program-State and Local	94,016
14.999	Miscellaneous Non-Major Grants	56,742

		AMOUNT
14.999	Miscellaneous Non-Major Grants: Passed Through From Pacific Marine Fisheries	120,716
	TOTAL	$14,662,096
	SECTION 8 PROJECT-BASED CLUSTER	
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	3,477,719
	TOTAL	$3,477,719
	SECTION 8 TENANT-BASED CLUSTER	
14.855	Section 8 Rental Voucher Program	2,183,616
14.857	Section 8 Rental Certificate Program	8,203,510
	TOTAL	$10,387,126
DEPARTMENT OF THE INTERIOR		
15.100	Bureau of Indian Affairs	7,676
15.114	Indian Education: Higher Education Grant Program	26,541
15.130	Indian Education: Assistance to Schools	39,522
15.143	Training and Technical Assistance Indian Tribal Governments	7,487
15.143	Training and Technical Assistance Indian Tribal Governments: Passed Through From MT-WY Court Judges	(721)
15.199	Tongue River Rehabilitation Grant	10,509,609
15.199	Miscellaneous Non-Major Grants	22,465
15.199	Tongue River Rehabilitation Loan: Passed Through From Northern Cheyenne Tribe	5,481,808
15.200	Bureau of Land Management-Cooperative Assistance Agreement	59,840
15.219	Wildlife Habitat Management Technical Assistance	51,700
15.224	Cultural Resource Management	31,072
15.225	Recreation Resource Management	1,932
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	839,603
15.252	Abandoned Mine Land Reclamation (AMLR) Program	4,711,569
15.299	Miscellaneous Non-Major Grants	309,039
15.502	Irrigation System Rehabilitation and Betterment	254,736
15.503	Small Reclamation Projects	1,192
15.504	Reclamation and Water Reuse Program	115,931
15.608	Fish and Wildlife Management Assistance	130,476
15.612	Endangered Species Section 6	62,254
15.617	Wildlife Conservation and Appreciation	303
15.805	Assistance to State Water Resources Research Institutes	81,006
15.806	Water Education Program	33,623
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	8,643
15.900	National Archives-NHPRC	1,081
15.904	Historic Preservation Fund Grants-in-Aid	486,050
15.916	Outdoor Recreation: Acquisition, Development and Planning	18,444
15.921	Rivers, Trails and Conservation Assistance	1,022

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 1998

		AMOUNT
15.977	State Partnerships	5,372
15.999	Miscellaneous Non-Major Grants	248,441
	TOTAL	**$23,547,716**
	FISH AND WILDLIFE CLUSTER	
15.605	Sport Fish Restoration	5,169,162
15.611	Wildlife Restoration	4,793,157
	TOTAL	**$9,962,319**
	DEPARTMENT OF JUSTICE	
16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	67,978
16.300	Law Enforcement Assistance-FBI Advanced Police Training	5,150
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	693,190
16.548	Title V Delinquency Prevention	100,000
16.549	Part E State Challenge Activities	87,500
16.550	State Justice Statistics Program For Statistical Analysis Centers	56,184
16.560	Justice Research, Development, and Evaluation Project Grants	22,433
16.575	Crime Victim Assistance	1,036,512
16.576	Crime Victim Compensation	217,000
16.579	Byrne Formula Grant Program	2,817,683
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants	67,000
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	912,325
16.588	Violence Against Women Formula Grants	843,210
16.592	Local Law Enforcement Block Grants Program	191,002
16.593	Residential Substance Abuse Treatment for State Prisoners	147,319
16.598	State Identification Systems Formula Grant	172,727
16.606	State Criminal Alien Assistance Program	41,535
16.711	Troops to COPS	80,261
16.726	Juvenile Mentoring Program	64,517
16.727	Combating Underage Drinking	651,678
16.727	Combating Underage Drinking: Passed Through From Minnesota \ J.R.S.A.	12,533
16.999	Miscellaneous Non-Major Grants	119,830
	TOTAL	**$8,407,567**
	DEPARTMENT OF LABOR	
17.002	Labor Force Statistics	576,059
17.005	Compensation and Working Conditions Data	52,575
17.202	Certification of Foreign Workers for Temporary Agricultural Employment	14,249
17.203	Labor Certification for Alien Workers	118,634
17.225	Unemployment Insurance	64,882,565

			AMOUNT
17.245	Trade Adjustment Assistance-Workers		1,846,785
17.248	Employment and Training Research and Development Projects		40,000
17.249	Employment Services and Job Training: Pilot and Demonstration Programs		363,334
17.504	Consultation Agreements		175,778
17.600	Mine Health and Safety Grants		83,141
17.999	National Occupational Information Coordinating Committee		93,373
		TOTAL	$68,246,493
EMPLOYMENT SERVICES CLUSTER			
17.207	Employment Service		5,980,815
17.801	Disabled Veterans Outreach Program (DVOP)		282,105
17.804	Local Veterans' Employment Representative Program		640,440
		TOTAL	$6,903,360
JTPA CLUSTER			
17.246	Employment and Training Assistance-Dislocated Workers		3,934,399
17.250	Job Training Partnership Act		6,374,563
		TOTAL	$10,308,962
DEPARTMENT OF TRANSPORTATION			
20.005	Boating Safety Financial Assistance		227,608
20.106	Airport Improvement Program		69,615
20.200	Federal Highway Administration		11,084
20.205	Highway Planning and Construction		175,198,300
20.215	Highway Training and Education		212,244
20.218	Motor Carrier Safety Assistance Program		563,072
20.219	National Recreational Trails Funding Program		103,556
20.308	Local Rail Freight Assistance		30,314
20.505	Federal Transit Technical Studies Grant		360,630
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities		757,873
20.700	Pipeline Safety		24,568
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants		56,385
20.799	Miscellaneous Non-Major Grants		39,933
		TOTAL	$177,655,182
FEDERAL TRANSIT CLUSTER			
20.500	Federal Transit Capital Improvement Grants		56,323
20.507	Federal Transit Capital and Operating Assistance Formula Grants		85,708
		TOTAL	$142,031
HIGHWAY SAFETY CLUSTER			
20.600	State and Community Highway Safety		967,614
		TOTAL	$967,614

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 1998

		AMOUNT
DEPARTMENT OF TREASURY		
21.999	Miscellaneous Non-Major Grants	6,098
	TOTAL	**$6,098**
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION		
30.002	Employment Discrimination-State and Local Fair Employment Practices	134,917
	TOTAL	**$134,917**
GENERAL SERVICES ADMINISTRATION		
39.003	Donation of Federal Surplus Personal Property	1,055,959
	TOTAL	**$1,055,959**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001	Aerospace Education Services Program	29,688
43.002	Technology Transfer: Passed Through From RDI	1,040,599
	TOTAL	**$1,070,287**
NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES		
45.000	National Foundation on the Arts and the Humanities	7,269
45.007	Promotion of the Arts-State and Regional Programs	4,127
45.015	Promotion of the Arts-Folk Arts	1,080
45.023	Promotion of the Arts-Local Arts	18,833
45.024	Promotion of the Arts-Grants to Organizations and Individuals	12,809
45.025	Promotion of the Arts-Partnership Agreements	360,203
45.129	Promotion of the Humanities-Federal/State Partnership: Passed Through From MT Comm for Humanities	133
45.301	Institute of Museum and Library Services-General Operating Support	9,908
45.310	State Library Program	409,047
	TOTAL	**$823,409**
NATIONAL SCIENCE FOUNDATION		
47.041	Engineering Grants	392,426
47.049	Mathematical and Physical Sciences	502,841
47.049	Mathematical and Physical Sciences: Passed Through From U of Missouri	109,317
47.074	Biological Sciences	70,959
47.076	Education and Human Resources	1,140,090
47.076	Education and Human Resources: Passed Through From MT Council of Teachers	225,362
47.077	Academic Research Infrastructure	818,236

			AMOUNT
47.999	Miscellaneous Non-Major Grants		74,523
		TOTAL	$3,333,754
SMALL BUSINESS ADMINISTRATION			
59.000	Small Business Administration-Technical Assistance Grant		38,163
59.007	Management and Technical Assistance for Socially and Economically Disadvantaged		4,303
59.009	Procurement Assistance to Small Business		1,365
59.037	Small Business Development Center		384,367
		TOTAL	$428,198
DEPARTMENT OF VETERANS AFFAIRS			
64.005	Grants to States For Construction of State Home Facilities		47,106
64.014	Veterans State Domiciliary Care		152,601
64.015	Veterans State Nursing Home Care		2,129,628
64.124	All-Volunteer Force Educational Assistance		79,420
64.199	Miscellaneous Non-Major Grants		2,604
64.203	State Cemetery Grants		34,284
		TOTAL	$2,445,643
ENVIRONMENTAL PROTECTION AGENCY			
66.001	Air Pollution Control Program Support		(831)
66.032	State Indoor Radon Grants		(3,993)
66.418	Construction Assistance for Wastewater Treatment		161,536
66.419	Water Pollution Control-State and Interstate Program Support		145
66.420	State and Local Manpower Development. Program		114,975
66.423	Water Quality Control Information		13,782
66.423	Water Quality Control Information: Passed Through From Lewis & Clark Cons Distr		27,888
66.433	State Underground Water Source Protection		271,359
66.438	Construction Management Assistance		197,249
66.454	Water Quality Management Planning		235,507
66.456	National Estuary Program		305,227
66.458	Capitalization Grants For State Revolving Funds		6,028,354
66.460	Nonpoint Source Implementation Grants		1,314,405
66.460	Nonpoint Source Implementation Grants: Passed Through From Gallatin County		10,753
66.461	Wetlands Protection--State Development Grants		599,006
66.461	Wetlands Protection--State Development Grants: Passed Through From LC Conservation		5,475
66.461	Wetlands Protection--State Development Grants: Passed Through From Gallatin Conservation		78,615
66.463	National Pollutant Discharge Elimination System Related State Program Grants		37,667

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		AMOUNT
66.468	Capitalization Grants for Drinking Water State Revolving Fund	264,990
66.500	Environmental Protection: Consolidated Research: Passed Through From MSE	172,279
66.505	Water Pollution Control-Research, Development, and Demonstration	(2)
66.605	Performance Partnership Grants	3,394,031
66.606	Surveys, Studies, Investigations and Special Purpose Grants	24,028
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	527,378
66.708	Pollution Prevention Grants Program	169,102
66.802	Superfund State Site: Specific Cooperative Agreements	2,694,315
66.804	State Underground Storage Tanks Program	15,026
66.805	Leaking Underground Storage Tank Trust Fund Program	896,975
66.808	Solid Waste Management Assistance	33,483
66.809	Superfund State Core Program Cooperative Agreements	6,927
66.950	Environmental Education and Training Program	11,801
66.950	Environmental Education and Training Program: Passed Through From AA for Environ-Education	118,220
66.999	Miscellaneous Non-Major Grants	10,377
	TOTAL	**$17,736,049**

DEPARTMENT OF ENERGY

81.004	University Laboratory Cooperative Program	591
81.041	State Energy Program	306,719
81.042	Weatherization Assistance for Low-Income Persons	2,008,192
81.086	Conservation Research and Development	2,046,400
81.104	Technology Development for Environmental Management: Passed Through From MSE	72,303
81.502	State Assistance-FEMA-Rebuild America	60,173
81.999	Miscellaneous Non-Major Grants	221,168
81.999	Miscellaneous Non-Major Grants: Passed Through From Bonneville Power	1,478
	TOTAL	**$4,717,024**

UNITED STATES INFORMATION AGENCY

82.001	Educational Exchange: Graduate Students	289,994
	TOTAL	**$289,994**

FEDERAL EMERGENCY MANAGEMENT AGENCY

83.007	Reimbursement for Firefighting on Federal Property	78,852
83.011	Hazardous Materials Training Program for Implementation of the Superfund	71,342
83.105	Community Assistance Program-State Support Services Element (CAP-SSSE)	104,256
83.505	State Disaster Preparedness Grants	50,041
83.534	Emergency Management State and Local Assistance	997,651
83.535	Mitigation Assistance	126,170
83.544	Public Assistance Grant	5,002,393

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		AMOUNT
83.546	National Arson Prevention Initiative	18,000
83.547	First Responder Anti-Terrorism Training Assistance	58,907
83.548	Hazard Mitigation Grant	201,328
83.999	Miscellaneous Non-Major Grants	15,781
	TOTAL	$6,724,721

DEPARTMENT OF EDUCATION

84.002	Adult Education-State Grant Program	1,018,348
84.010	Title I Grants To Local Education Agencies	26,164,754
84.011	Migrant Education-Basic State Grant Program	683,120
84.013	Title I Program for Neglected and Delinquent Children	100,572
84.021	International: Overseas-Group Projects Abroad	36,016
84.025	Services for Children With Deaf-Blindness	215,911
84.026	Media and Captioned Services for Individuals with Disabilities	2,283
84.029	Special Education - Personnel Development and Parent Training	139,568
84.034	Public Library Services	99,862
84.035	Interlibrary Cooperation and Resource Sharing	64,723
84.036	Library Education and Training	14,713
84.048	Vocational Education-Basic Grants to States	4,800,943
84.066	TRIO-Educational Opportunity Centers	414,436
84.069	State Student Incentives Grants	270,173
84.086	Special Education-Progam for Severely Disabled Children: Passed Through From Allegheny Campus-HS	20,967
84.087	Indian Education-Fellowships for Indian Students	2,158
84.094	Patricia Roberts Harris Fellowship	12,259
84.116	Fund for the Improvement of Postsecondary Education	123,120
84.123	Law-Related Education	765
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	9,040,323
84.128	Rehabilitation Services-Service Projects	105,848
84.129	Rehabilitation Long-Term Training	89,110
84.144	MIGRANT EDUCATION - COORDINATION PROGRAM (B): Passed Through From Illinois Migrant Council	17,239
84.153	Business and International Education	66,779
84.154	Public Library Construction and Technology Enhancement	46,404
84.158	Secondary Education and Transitional Services for Youth With Disabilties	601,605
84.162	Immigrant Education	29,450
84.168	Eisenhower Professional Development-Federal Activities	127,301
84.169	Independent Living-State Grants	254,350
84.177	Rehabilitation Services-Independent Living Services for Older Individuals/Blind	131,946
84.181	Special Education-Grants for Infants and Families with Disabilities	1,564,593
84.183	Higher Ed Consortia for Drug Prevention	10,381

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		AMOUNT
84.185	Byrd Honors Scholarships	78,084
84.186	Safe and Drug-Free Schools and Communities - State Grants	2,670,393
84.187	Supported Employment Services for Individuals with Severe Disabilities	299,596
84.190	Christa McAuliffe Fellowships	28,017
84.194	Bilingual Education Support Services	87,609
84.195	Bilingual Education: Professional Development	25,853
84.196	Education for Homeless Children and Youth	88,473
84.203	Star Schools: Passed Through From Washington State	37,883
84.213	Even Start - State Educational Agencies	481,598
84.215	Fund for Improvement of Education: Passed Through From Helena Publ Schools	(1,182)
84.216	Capital Expenses	26,659
84.217	McNair Post-Baccalaureate Achievement	39,657
84.224	State Grants for Assistive Technology	308,847
84.224	State Grants for Assistive Technology: Passed Through From VA Commonwealth	13,017
84.235	Special Projects and Demonstrations for Providing Vocational Rehabiliation: Passed Through From Allegheny Campus	9,441
84.243	Tech-Prep Education	390,900
84.265	Rehabiliation Training/State Vocational Rehabilitation In-Service	39,746
84.281	Eisenhower Professional Development State Grants	1,635,074
84.298	Innovative Education Program Strategies	1,524,625
84.318	Technology Literacy Challenge Fund Grants	923,362
84.998	American Printing House for the Blind	779
84.999	Miscellaneous Non-Major Grants	71,309
	TOTAL	**$55,049,760**
SPECIAL EDUCATION CLUSTER		
84.027	Special Education - Grants to States	8,830,268
84.173	Special Education - Preschool Grants	1,289,036
	TOTAL	**$10,119,304**
STUDENT FINANCIAL ASSISTANCE CLUSTER		
84.007	Federal Supplemental Educational Opportunity Grants	1,434,201
84.032	Federal Family Education Loans	750,254
84.033	Federal Work-Study Program	2,477,161
84.038	Federal Capital Contributions	1,109,633
84.063	Federal Pell Grant Program	18,974,179
84.268	Federal Direct Student Loans	30,443,248
93.364	Nursing Student Loan Program	10,807
	TOTAL	**$55,199,483**
TRIO CLUSTER		
84.042	TRIO-Student Support Services	937,144
84.044	TRIO-Talent Search	455,209

		AMOUNT
84.047	TRIO-Upward Bound	1,304,414
	TOTAL	$2,696,767
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION		
89.003	National Historical Publications and Records Grants	5,841
	TOTAL	$5,841
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	23,660
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services	21,670
93.043	Special Programs for the Aging-Title III, Part F-DiseasePrevention/Health Promotion	79,073
93.046	Special Programs for the Aging-Title III, Part D for In-Home Services	45,231
93.110	Maternal and Child Health Federal Consolidated Programs	241,799
93.116	Project Grant and Cooperative for Tuberculosis Control Program	132,465
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	19,000
93.125	Mental Health Planning and Demonstration Projects	13,835
93.127	Emergency Medical Services for Children	14,936
93.128	Techical Assistance Activites Related to Mental Health Statistics Improvement Program	55,759
93.130	Primary Care Services-Resource Coordination and Development Primary Care Offices	189,633
93.150	Projects for Assistance in Transition from Homelessness (PATH)	298,320
93.184	Disabilities Prevention	96,229
93.197	Childhood Lead Poisoning Prevention Projects-State and Community	219,683
93.217	Family Planning Services	1,366,476
93.235	Abstinence Education	28,217
93.263	Occupational Safety and Health Training Grant	58,545
93.268	Childhood Immunization Grant	2,699,294
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	463,266
93.298	Nurse Practitioner and Nurse-Midwifery Education Programs	303,992
93.337	Biomedical Research Support: Passed Through From American Physiological	56,136
93.358	Professional Nurse Traineeships	35,082
93.375	Minority Biomedical Research Support	87,794
93.556	Family Preservation and Support Services	388,758
93.558	Temporary Assistance for Needy Families (TANF)	29,501,762
93.560	Family Support Payments to States-Assistance Payments	122,015
93.561	Job Opportunities and Basic Skills Training (JOBS)	(4,270)
93.563	Child Support Enforcement	8,154,796
93.566	Refugee and Entrant Assistance-State Administered Programs	89,786
93.568	Low Income Home Energy Assistance	7,163,941
93.569	Community Services Block Grant	2,117,251

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		AMOUNT
93.571	Community Services Block Grant Discretionary Awards-Community Food and Nutrition	6,277
93.572	Emergency Community Services for the Homeless	1,197
93.574	Child Care for Families at Risk of Welfare Dependency	(250)
93.576	Refugee and Entrant Assistance-Discretionary Grants	144,448
93.586	State Court Improvement Program	100,564
93.597	Grants to States for Access and Visitation Programs	1,756
93.600	Head Start	147,129
93.630	Developmental Disabilities Basic Support and Advocacy Grants	420,530
93.632	Developmental Disabilities University Affiliated Programs	250,869
93.643	Children's Justice Grants to States	55,596
93.645	Child Welfare Service-State Grant	905,258
93.656	Temporary Child Care and Crisis Nurseries	341,293
93.658	Foster Care Title IV-E	6,722,061
93.659	Adoption Assistance	1,544,502
93.667	Social Services Block Grant	7,540,365
93.669	Child Abuse and Neglect State Grants	194,837
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters	424,959
93.673	Grants to States for Planning and Development of Dependent Care Program	(24,377)
93.674	Independent Living	245,872
93.822	Health Careers Opportunities Program	74,526
93.824	Area Health Education Centers	3,043
93.859	Pharmacology, Physiology, and Biological Chemistry Research	20,474
93.880	Minority Access to Research Careers	52,332
93.913	Grants to States for Operation of Offices of Rural Health	133,486
93.917	HIV Care Formula Grants	267,327
93.919	Cooperative Agreements for State-Based Breast and Cervical Cancer Early Detection	746,231
93.922	Minority Apprenticeship Program	51,450
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	9,604
93.938	Cooperative Agreements to Support School Health Programs	252,313
93.940	HIV Prevention Activities-Health Department Based	1,104,560
93.944	HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	85,095
93.951	Demonstration Grants to States with Respect to Alzheimers Disease	150,123
93.958	Block Grants for Community Mental Health Services	879,863
93.959	Block Grants for Prevention and Treatment of Substance Abuse	3,375,477
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	238,558
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluations	238,979
93.991	Preventive Health and Health Services Block Grant	1,258,843
93.994	Maternal and Child Health Services Block Grant to the States	2,548,110
93.999	Miscellaneous Non-Major Grants	174,015

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		AMOUNT
	TOTAL	$84,771,429
AGING CLUSTER		
93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	1,494,822
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	2,417,743
	TOTAL	$3,912,565
CHILD CARE CLUSTER		
93.575	Child Care and Development Block Grant	3,857,074
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development	5,685,329
	TOTAL	$9,542,403
MEDICAID CLUSTER		
93.775	State Medicaid Fraud Control Units	298,526
93.777	State Survey and Certification of Health Care Providers and Suppliers	1,674,601
93.778	Medical Assistance Program	294,760,856
	TOTAL	$296,733,983
CORPORATION FOR NATIONAL & COMMUNITY SERVICE		
94.001	92-93 Commission-Campus Compact: Passed Through From Campus Compact	5,659
94.003	State Commissions	125,689
94.004	Learn and Serve America-School and Community Based Programs	162,633
94.005	Learn & Serve America-Higher Education	44,269
94.005	Learn & Serve America-Higher Education: Passed Through From Campus Compact	16,169
94.005	Learn & Serve America-Higher Education: Passed Through From Asso College Teachers	21,722
94.006	AmeriCorps	1,244,142
94.009	Training and Technical Assistance	53,969
	TOTAL	$1,674,252
SOCIAL SECURITY ADMINISTRATION		
DISABILITY INSURANCE/SSI CLUSTER		
96.001	Social Security - Disability Insurance	3,280,486
	TOTAL	$3,280,486

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		AMOUNT
RESEARCH AND DEVELOPMENT CLUSTER		
AGENCY FOR INTERNATIONAL DEVELOPMENT		
02.R&D	Miscellaneous Research and Development	175,590
02.R&D	Miscellaneous Research and Development: Passed Through From Virginia Tech	20,641
	TOTAL	$196,231
INTER-AMERICAN FOUNDATION		
04.R&D	Miscellaneous Research and Development	2,330
	TOTAL	$2,330
DEPARTMENT OF AGRICULTURE		
10.001	Agricultural Research-Basic and Applied Research	444,310
10.025	Plant and Animal Disease, Pest Control, and Animal Care	133,313
10.069	Conservation Reserve Program	4,234
10.200	Grants for Agriculture Research, Special Research Grants	925,189
10.200	Grants for Agriculture Research, Special Research Grants: Passed Through From WSU	17,121
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	1,879,471
10.206	Grants for Agricultural Research-Competitive Research Grants	1,350,495
10.206	Grants for Agricultural Research-Competitive Research Grants: Passed Through From KSU	3,344
10.215	Sustainable Agriculture Research and Education: Passed Through From Utah State University	22,808
10.217	Higher Education Challenge Grants	39,212
10.224	Fund for Rural America-Research, Education, and Extension Activities	71,203
10.224	Fund for Rural America-Research, Education, and Extension Activities: Passed Through From University of Minnesota	3,945
10.224	Fund for Rural America-Research, Education, and Extension Activities: Passed Through From University of Idaho	190
10.250	Agricultural and Rural Economic Research	118,098
10.250	Agricultural and Rural Economic Research: Passed Through From NDS University	10,866
10.441	Technical and Supervisory Assistance Grants: Passed Through From E. Oregon University	(13)
10.500	Cooperative Extension Service	350,324
10.500	Cooperative Extension Service: Passed Through From Utah State University	23,833
10.652	Forestry Research	1,783,693
10.664	Cooperative Forestry Assistance	4,198
10.665	Schools and Roads: Grants to States	124
10.902	Soil and Water Conservation	24,744
10.903	Soil Survey	9,513
10.961	International Agricultural Research Program	8,936

		AMOUNT
10.963	Scientific and Technical Cooperation	8,633
10.R&D	Miscellaneous Research and Development	3,559
	TOTAL	$7,241,343
DEPARTMENT OF COMMERCE		
11.446	Antarctic Marine Living Resources	39,939
11.446	Antarctic Marine Living Resources: Passed Through From National Marine Fishes	(15,172)
11.550	Public Telecommunication Facilities-Planning and Construction	1,040,750
	TOTAL	$1,065,517
DEPARTMENT OF DEFENSE		
12.107	Navigation Projects	9,554
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	8,711
12.114	Collaborative Research and Development	411,800
12.199	Reimbursement Technical Service	49,113
12.300	Basic and Applied Scientific Research	176,280
12.300	Basic and Applied Scientific Research: Passed Through From Laser Photonics Tech	11,584
12.300	Basic and Applied Scientific Research: Passed Through From University of Colorado	58,298
12.420	Military Medical Research and Development	60,673
12.431	Basic Scientific Research	858,076
12.630	Basic, Applied, and Advanced Research in Science and Engineering	510,292
12.800	Air Force Defense Research Sciences Program	692,571
12.800	Air Force Defense Research Sciences Program: Passed Through From Laser Photonics Tech	21,021
12.901	Mathematical Sciences Grants Program	6,190
12.910	Reseach and Technology Development	154,026
12.910	Reseach and Technology Development: Passed Through From University of Idaho	1,586
12.R&D	Miscellaneous Research and Development	186,523
	TOTAL	$3,216,298
DEPARTMENT OF THE INTERIOR		
15.143	Training and Technical Assistance Indian Tribal Governments	1,105
15.200	Bureau of Land Management-Cooperative Assistance Agreement	97,187
15.221	Cooperative Agreements for Research in Public Lands Management	9,920
15.224	Cultural Resource Management	136,834
15.224	Cultural Resource Management: Passed Through From WC Environmental Council	(42)
15.225	Recreation Resource Management	26,641
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	3,121

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		AMOUNT
15.252	Abandoned Mine Land Reclamation (AMLR) Program	129,756
15.259	Bureau of Reclamation	17
15.600	Anadromous Fish Conservation	355,873
15.608	Fish and Wildlife Management Assistance	817,574
15.608	Fish and Wildlife Management Assistance: Passed Through From Native American Wildlife	13,576
15.614	Coastal Wetlands Planning, Protection and Restoration Act	55,314
15.618	Administrative Grants for Federal Aid in Sport Fish and Wildlife Restoration	36,757
15.805	Assistance to State Water Resources Research Institutes	(4,940)
15.808	U.S. Geological Survey-Research and Data Acquisition	468,507
15.808	U.S. Geological Survey-Research and Data Acquisition: Passed Through From Univ of Minnesota	11,609
15.900	National Archives-NHPRC	74,695
15.900	National Archives-NHPRC: Passed Through From Univ of Minnesota	986
15.910	National Natural Landmarks Program	5,339
15.912	National Historic Landmark	174,565
15.915	Technical Preservation Services	190,595
15.916	Outdoor Recreation: Acquisition, Development and Planning	37,589
15.975	Research Information	210,559
15.976	Migratory Bird Banding and Data Analysis	2,390
15.977	State Partnerships	91,803
15.R&D	Miscellaneous Research and Development	204,637
15.R&D	Miscellaneous Research and Development: Passed Through From Arthur Carhart NWTC	36,919
15.R&D	Miscellaneous Research and Development: Passed Through From Ennis N Fish Hatch	1,102
15.R&D	Miscellaneous Research and Development: Passed Through From Spring Cr Fish Hatch	1,375
	TOTAL	**$3,191,363**
DEPARTMENT OF JUSTICE		
16.R&D	Miscellaneous Research and Development	(33)
	TOTAL	**(33)**
DEPARTMENT OF STATE		
19.000	Aid for International Development	130,699
	TOTAL	**$130,699**
DEPARTMENT OF TRANSPORTATION		
20.205	Highway Planning and Construction	138,314
20.215	Highway Training and Education: Passed Through From Lockheed Martin Corp	26,179

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		AMOUNT
20.701	University Transportation Centers Program: Passed Through From CA & OR DoTs	741,203
	TOTAL	$905,696
DEPARTMENT OF TREASURY		
21.R&D	Miscellaneous Research and Development	940,493
	TOTAL	$940,493
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.000	NASA	1,283,673
43.000	NASA: Passed Through From UND	9,507
43.001	Aerospace Education Services Program	1,800,824
43.001	Aerospace Education Services Program: Passed Through From Lockheed Missiles	133,400
43.001	Aerospace Education Services Program: Passed Through From Ionwerks	68,562
43.001	Aerospace Education Services Program: Passed Through From Lockheed Martin	24,928
43.001	Aerospace Education Services Program: Passed Through From UND	8,298
43.001	Aerospace Education Services Program: Passed Through From CIT	6,575
43.002	Technology Transfer	327,075
43.002	Technology Transfer: Passed Through From UND	38,108
43.R&D	Miscellaneous Research and Development: Passed Through From UND	50,825
	TOTAL	$3,751,775
NATIONAL SCIENCE FOUNDATION		
47.041	Engineering Grants	2,341,072
47.049	Mathematical and Physical Sciences	2,440,930
47.049	Mathematical and Physical Sciences: Passed Through From NRC	2,500
47.049	Mathematical and Physical Sciences: Passed Through From Woods Hole Ocean	23,188
47.049	Mathematical and Physical Sciences: Passed Through From University of Georgia	415
47.049	Mathematical and Physical Sciences: Passed Through From Scientific Bacteria Corp	22,497
47.050	Geosciences	280,045
47.053	Scientific, Technological, and International Affairs	4,356
47.070	Computer and Information Science and Engineering	402,334
47.074	Biological Sciences	1,846,232
47.074	Biological Sciences: Passed Through From Salish Kootenai College	9,450
47.074	Biological Sciences: Passed Through From University of California	113,028
47.074	Biological Sciences: Passed Through From CSU	36,601
47.075	Social, Behavioral, and Economic Sciences	125,601
47.076	Education and Human Resources	2,140,450
47.077	Academic Research Infrastructure	3,847

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		AMOUNT
47.R&D	Miscellaneous Research and Development	320,013
	TOTAL	$10,112,559

ENVIRONMENTAL PROTECTION AGENCY

66.000	Environmental Protection Agency: Passed Through From Council for EQ	16,290
66.423	Water Quality Control Information	98,029
66.435	Water Pollution Control-Lake Restoration Cooperative Agreements	(2)
66.454	Water Quality Management Planning: Passed Through From National Water Research	87,297
66.456	National Estuary Program	257,313
66.460	Nonpoint Source Implementation Grants: Passed Through From Missoula Conservation	107,121
66.460	Nonpoint Source Implementation Grants: Passed Through From Powell Conservation	45,929
66.460	Nonpoint Source Implementation Grants: Passed Through From Teton County	26,096
66.460	Nonpoint Source Implementation Grants: Passed Through From Hill County	4,420
66.463	National Pollutant Discharge Elimination System Related State Program Grants	327,687
66.500	Environmental Protection: Consolidated Research	24,729
66.500	Environmental Protection: Consolidated Research: Passed Through From KSU	69,625
66.500	Environmental Protection: Consolidated Research: Passed Through From MSE	47,839
66.502	Pesticides Control Research	123,050
66.504	Solid Waste Disposal	156,224
66.505	Water Pollution Control-Research, Development, and Demonstration: Passed Through From KSU	1,069
66.606	Surveys, Studies, Investigations and Special Purpose Grants	70,666
66.801	Hazardous Waste Management State Program Support: Passed Through From KSU	5,257
66.802	Superfund State Site: Specific Cooperative Agreements	11,438
66.802	Superfund State Site: Specific Cooperative Agreements: Passed Through From CDM Federal	79,047
66.802	Superfund State Site: Specific Cooperative Agreements: Passed Through From CH2M Hill	13,838
66.807	Superfund Innovative Technology Evaluation Program: Passed Through From CDM Federal	(2,473)
66.808	Solid Waste Management Assistance	5,216
66.951	Environmental Education Grants	15,388
66.R&D	Miscellaneous Research and Development	6,447
	TOTAL	$1,597,540

DEPARTMENT OF ENERGY

81.004	University Laboratory Cooperative Program: Passed Through From University of California	71,907
81.004	University Laboratory Cooperative Program: Passed Through From Sandia Labs	8,163

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		AMOUNT
81.004	University Laboratory Cooperative Program: Passed Through From Lockheed Martin Corp	4,205
81.041	State Energy Program	8,178
81.049	Office of Energy Research Financial Assistance Program	1,061,541
81.049	Office of Energy Research Financial Assistance Program: Passed Through From FSU	61,444
81.049	Office of Energy Research Financial Assistance Program: Passed Through From Brookhaven Laboratory	61,236
81.049	Office of Energy Research Financial Assistance Program: Passed Through From Princeton University	16,918
81.049	Office of Energy Research Financial Assistance Program: Passed Through From UN-Lincoln	5,614
81.052	Energy Conservation for Institutional Buildings: Passed Through From Natl Renewable Energy	43,432
81.064	Office of Scientific and Technical Information	46,623
81.077	University Research Instrumentation	110,222
81.079	Regional Biomass Energy Programs	61,738
81.087	Renewable Energy Research and Development	8,867
81.087	Renewable Energy Research and Development: Passed Through From MSTA	(7,767)
81.087	Renewable Energy Research and Development: Passed Through From Natl Renewable Energy	87
81.087	Renewable Energy Research and Development: Passed Through From MSE	115,757
81.092	Environmental Restoration	187,458
81.104	Technology Development for Environmental Management: Passed Through From MSE	306,320
81.R&D	Miscellaneous Research and Development	23,913
81.R&D	Miscellaneous Research and Development: Passed Through From Windmaster	6
81.R&D	Miscellaneous Research and Development: Passed Through From University of California	15,949
	TOTAL	$2,211,811

DEPARTMENT OF EDUCATION

84.023	Innovation and Development	124,452
84.023	Innovation and Development: Passed Through From Allegheny Campus-HS	6,360
84.024	Early Education for Children with Disabilities	765,699
84.029	Special Education - Personnel Development and Parent Training	237,016
84.048	Vocational Education-Basic Grants to States: Passed Through From Msla Co High School	227
84.086	Special Education-Progam for Severely Disabled Children	253,054
84.097	Law School Clinical Experience Program	(1,286)
84.133	National Institute on Disability and Rehabilitation Research	526,475
84.153	Business and International Education	972
84.217	McNair Post-Baccalaureate Achievement	128,042

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 1998

		AMOUNT
84.235	Special Projects and Demonstrations for Providing Vocational Rehabiliation	89,358
84.265	Rehabiliation Training/State Vocational Rehabilitation In-Service: Passed Through From Center: Technical Trng	7,089
84.309	National Institute on Postsecondary Education, Libraries, and Lifelong Learning	114,676
84.R&D	Miscellaneous Research and Development: Passed Through From USC	9,438
	TOTAL	$2,261,572

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.114	Applied Toxicological Research and Testing	1
93.136	Injury Prevention and Control Research and State and Community Based Programs	67,906
93.173	Research Related to Deafness and Communication Disorders	67,237
93.173	Research Related to Deafness and Communication Disorders: Passed Through From University of California	969
93.184	Disabilities Prevention	168,355
93.184	Disabilities Prevention: Passed Through From Maine DHS	17,884
93.186	National Research Services Awards: Passed Through From University of Washington	2,369
93.226	Health Care Systems Cost and Access Research and Development Grants: Passed Through From Norion Diagnostic	50,239
93.242	Mental Health Research Grants	177,012
93.279	Drug Abuse Research Programs	39,128
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	210,018
93.337	Biomedical Research Support	114,458
93.361	Nursing Research	77,851
93.371	Biomedical Technology	31,889
93.371	Biomedical Technology: Passed Through From University of Washington	32,579
93.375	Minority Biomedical Research Support	151,080
93.389	Research Infrastructure	69,157
93.390	Academic Research Enhancement Award	77,390
93.395	Cancer Treatment Research	337,332
93.396	Cancer Biology Research	29,573
93.779	Health Care Financing Research, Demonstrations and Evaluations	118,490
93.821	Cell Biology and Biophysics Research	70,227
93.837	Heart and Vascular Diseases Research	18,095
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	245,666
93.854	Biological Basis Research in the Neurosciences	446,761
93.854	Biological Basis Research in the Neurosciences: Passed Through From UC Irvine	5,973
93.855	Allergy, Immunology and Transplantation Research	899,598
93.856	Microbiology and Infectious Diseases Research	1,220,644
93.856	Microbiology and Infectious Diseases Research: Passed Through From University of Utah	979

		AMOUNT
93.856	Microbiology and Infectious Diseases Research: Passed Through From UCLA	115,745
93.859	Pharmacology, Physiology, and Biological Chemistry Research	733,574
93.859	Pharmacology, Physiology, and Biological Chemistry Research: Passed Through From Microsenser Systems	9,414
93.862	Genetics and Developmental Biology Research	281,436
93.867	Vision Research	238,210
93.906	Rural Health Medical Education Demonstration Projects	228,333
93.912	Rural Outreach-Rural Network Developmental Program	139,971
93.R&D	Miscellaneous Research and Development	6,870
	TOTAL	$6,502,413
CORPORATION FOR NATIONAL & COMMUNITY SERVICE		
94.005	Learn & Serve America-Higher Education	7,585
94.005	Learn & Serve America-Higher Education: Passed Through From Campus Compact	5,882
	TOTAL	$13,467
	TOTAL RESEARCH AND DEVELOPMENT CLUSTER	$43,341,074
	TOTAL EXPENDITURES OF FEDERAL AWARDS	$1,074,576,441

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STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

Note 1. Basis of Accounting

The assistance amounts presented on the accompanying Schedule of Expenditures of Federal Awards of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Food Distribution Programs

The amounts reported for Food Distribution programs (CFDA # 10.550, 10.559, 10.567, 10.569, and 10.570) represent the dollar value of food commodities distributed to eligible recipients during the year, plus the value of undistributed commodities held in the state's warehouse. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the commodities programs is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 1998, Montana distributed $811,594 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed $5,543,081 in commodities in fiscal year 1998. The value at June 30, 1998, of commodities stored in the state's warehouse is $2,258,219 for which the state is liable in the event of loss. The state has insurance to cover this liability.

Federal Surplus Personal Property

In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is 23.3 percent of the original acquisition cost of the property.

Capitalization Grants for State Revolving Funds

The amount presented for the Capitalization Grants for State Revolving Funds (CFDA # 66.458) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 1998 is $29,575,054.

Special Economic Development and Adjustment Assistance Program

The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 1998 is $983,876.

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed $85,656,303 in new loans for the Federal Family Education Loans (CFDA #84.032) program during fiscal year 1998. The outstanding loan balance (including principal, accrued interest and collection costs) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirements was $63,702,556 at June 30, 1998. The amount reported on the accompanying Schedule of Expenditures of Federal Awards represents the administrative cost allowance received for the program. In addition to the administrative cost allowance, MGSLP received or accrued revenue from the U.S. Department of Education in fiscal year 1998 of $19,120,149 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor and $358,441 for providing supplemental pre-claims assistance services.

Federal Perkins Loan Program - Federal Capital Contributions

The amount reported for the Federal Perkins Loan Program - Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 1998 is $25,490,686.

Nursing Student Loan Program

The amount of loans outstanding for the Nursing Student Loan Program (CFDA #93.364) as of June 30, 1998 is $1,275,103.

Childhood Immunization Grants

The amount reported for the Childhood Immunization Grants (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 1998. The state uses the CDC price list to calculate the value of doses received. During fiscal year 1998, Montana received 193,626 vaccine doses valued at $1,779,049.

Tongue River - Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994, in which the tribe agreed to loan the State of Montana $11,500,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. The amount presented for the Tongue River Rehabilitation Loan (CFDA #15.199) represents the amount of tribal loan funds expended on project costs during fiscal year 1998. The amount of the loan outstanding as of June 30, 1998, is $8,350,550.

Note 2. Type A Federal Programs

The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the level of federal award expenditures to be used in defining Type A and Type B federal assistance programs. Type A programs for the state of Montana are those which total federal awards expenditures equal or exceed $7,199,401 for the biennial period.

Note 3. CFDA #

The CFDA # assigned for each federal program listed in the Schedule of Expenditures of Federal Awards was based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.*99, **.999, or **.R&D. The first two digits represent the federal agency, the third digit represents the division within the federal agency, and "R&D" designation represents a research and/or development program. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. In cases where the federal agency does not have a designated CFDA#, the program was assigned a CFDA# in the format 99.999.

Note 4. Federal Excess Personal Property

The state of Montana receives Federal Excess Personal Property (FEPP). The title of this property remains with the federal agency. In accordance with General Services Administration Guidelines, the amount presented for FEPP is 23.3 percent of the original acquisition cost of the property. The following is a list of FEPP received by the state of Montana.

CFDA#	Program	FY98 Amount	Inventory
10.664	Cooperative Forestry Assistance	$693,608	$4,717,300
10.R&D	Miscellaneous Research & Development	1,740	72,886
12.999	Miscellaneous Non-Major	9,549	53,590

Note 5. Books for the Blind and Physically Handicapped

The Montana State Library receives "talking book" machines, books, and cassettes from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 1998 was $1,665,643. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 6. Unemployment Benefits

The unemployment compensation system is a Federal-State partnership. State Unemployment Insurance laws must conform to certain provisions of the federal law. The federal funds are expended for administrative costs. The state unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund, used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards. The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for CFDA #17.225.

UI Administrative Costs	$ 8,408,478
State UI Funds	53,073,001
Federal UI Funds	3,401,086
Total	$64,882,565

Note 7. Subgrants to State Agencies

Federal assistance subgranted from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from nonstate sources which are considered subgrants by the awarding agency are treated as pass through grants to the state and are reported on the Schedule of Expenditures of Federal Awards.

Note 8. Subgrants to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to nonstate entities for fiscal year 1998.

Federal CFDA Number	*Program Title*	*Amount Provided to Subrecipients*
10.001	Agricultural Research - Basic and Applied Research	$ 5,000
10.069	Conservation Reserve Program	3,505
10.200	Grants for Agricultural Research, Special Research Grants	127,397
10.206	Grants for Agricultural Research: Competitive Research Grants	650
10.224	Fund for Rural America: Research, Education, and Extension Activities	106,420
10.500	Cooperative Extension Service	62,225
10.550	Commodities	2,368,042
10.553	School Breakfast Program	2,369,614
10.555	National School Lunch Program	13,512,453
10.556	Special Milk Program for Children	44,428

Federal CFDA Number	Program Title	Amount Provided to Subrecipients
10.557	Special Supplemental Nutrition Program for WIC	3,527,679
10.558	Child and Adult Care Food Program	9,013,934
10.559	Summer Food Service Program for Children	438,297
10.561	State Administrative Matching Grants for Food Stamp Program	20,000
10.568	Emergency Food Assistance Program (Administrative Costs)	1
10.570	Nutrition Program for the Elderly (Commodities)	656,612
12.300	Basic and Applied Scientific Research	15,885
12.800	Air Force Defense Research Sciences Program	60,425
12.900	Language Grant Program	4,000
12.910	Research and Technology Development	36,724
14.228	Community Development Block Grant	9,349,655
14.239	Home Program Grants	4,354,662
14.855	Section 8 Vouchers	2,364,250
14.856	Section 8 Low Income Housing Assistance Program	2,468,460
14.857	Section 8 Certification	8,193,462
15.600	Anadromous Fish Conservation	33,569
15.608	Fish and Wildlife Management Assistance	71,019
15.910	National Natural Landmarks Program	3,560
15.912	National Historic Landmark	53,888
15.915	Technical Preservation Services	32,812
15.975	Research Information	6,061
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States	487,669
16.546	Title V Delinquency Prevention	93,875
16.549	Part E State Challenge Activities	62,500
16.575	Crime Victim Assistance	1,003,738
16.579	Byrne Formula Grant Program	1,675,035
16.588	Violence Against Women Formula Grants	749,403
16.592	Local Law Enforcement Block Grants Program	191,002
17.249	Employment Services and Job Training - Pilot and Demo. Programs	256,652
17.250	Job Training Partnership Act	3,903,497
20.205	Highway Planning and Construction	5,395,878
20.215	Highway Training and Education	49,401
20.219	National Recreational Trails Funding Program	96,245
20.500	Federal Transit Capital Improvement Grants	33,511
20.505	Federal Transit Technical Studies Grant	95,057
20.507	Federal Transit Capital and Operating Assistance Formula Grant	708,848
20.600	State and Community Highway Safety	98,806
20.703	Interagency Hazardous Materials Public Sector Training and Planning	35,407
21.999	Miscellaneous Non-Major Grants	47,049
43.001	Aerospace Education Services Program	117,176

Federal CFDA Number	*Program Title*	*Amount Provided to Subrecipients*
43.002	Technology Transfer	223,792
45.007	Promotion of the Arts-State and Regional Program	4,000
45.023	Promotion of the Arts-Local Arts Agencies Program	6,617
45.025	Promotion of the Arts-Partnerships	167,688
45.310	State Library Program	27,484
47.041	Engineering Grants	2,749
47.049	Mathematical and Physical Sciences	134,742
47.066	Teacher Preparation and Enhancement	2,337
47.074	Biological Sciences	33,784
47.076	Education and Human Resources	70,707
59.000	Small Business Administration Technical Assistance Grant	200
59.037	US Small Business Administration	287,851
64.015	Veterans State Nursing Home Care	1,608,651
66.418	Construction Assistance for Waste Water Treatment	78,923
66.423	Water Quality Control Information	47,781
66.456	National Estuary Program	48,607
66.500	Environmental Protection-Consolidated Research	987
81.049	Office of Science Financal Assistance Program	7,109
81.087	Renewable Energy Research and Development	91,319
81.092	Environmental Restoration	(5,833)
81.R&D	Miscellaneous R&D	20,000
83.534	Emergency Management - State and Local Assistance	409,179
83.544	Public Assistance Grants	4,570,950
83.548	Hazard Mitigation Grant Program	184,031
84.002	Adult Education-State Grant Program	939,576
84.010	Title I Grants to Local Educational Services	25,410,310
84.011	Migrant Education-Basic State Grant Program	586,671
84.013	Title I Program for Neglected & Delinquent Children	100,572
84.024	Early Education For Children With Disabilities	8,459
84.027	Special Education-Grants to States	8,027,029
84.029	Special Education-Personnel Development & Parent Training	22,676
84.034	Public Library Services	94,328
84.035	Interlibrary Cooperation and Resources Sharing	57,058
84.048	Vocational Education-Basic Grants to States	3,824,141
84.069	State Student Incentive Grants	32,336
84.086	Special Education Program for Severely Disabled Children	24,000
84.133	National Institute on Disability & Rehabilitation Research	21,619
84.154	Public Library Construction and Technology Enhancement	42,748
84.158	Secondary Education and Transitional Serv. for Youth with Disabilities	73,505
84.162	Immigrant Education	29,266

Federal CFDA Number	Program Title	Amount Provided to Subrecipients
84.173	Special Education-Preschool Grants	1,208,528
84.181	Special Education-Grants for Infants and Families with Disabilities	10,000
84.186	Safe and Drug Free Schools and Communities - State Grants	2,430,359
84.196	Education for Homeless Children & Youth	29,761
84.213	Even Start-State Educational Agencies	449,169
84.214	Even Start-Migrant Education	141,321
84.216	Capital Expenses	26,659
84.224	State Grants For Assistive Technology	108,626
84.235	Special Projects & Demonstrations for Providing Vocational Rehab Services	21,984
84.243	Tech-Prep Education	309,943
84.281	Eisenhower Professional Development State Grants	1,417,488
84.298	Innovative Educational Program Strategies	1,286,066
84.309	National Institute on Postsecondary Ed, Libraries & Lifelong Learning	8,056
84.318	Technology Literacy Challenge Fund Grants	844,994
93.041	Special Programs for the Aging-Title VII, Chapter 3: Prevention	23,660
93.042	Special Programs for the Aging-Title VII, Chapter 2: Long Term Care	23,462
93.043	Special Programs for the Aging-Title III, Part F: Disease Prevention	79,521
93.044	Special Programs for the Aging-Title III, Part B: Supportive Services	1,441,023
93.045	Special Programs for the Aging-Title III, Part C: Nutrition Services	2,204,276
93.046	Special Programs for the Aging-Title III, Part C: In Home Services	42,791
93.110	Maternal and Child Health Federal Consolidated Programs	50,000
93.125	Mental Health Planning and Demonstration Projects	16,295
93.127	Emergency Medical Services for Children	22,750
93.150	Projects for Assistance in Transition from Homelessness (PATH)	451,338
93.184	Disabilities Prevention	23,738
93.197	Childhood Lead Poisoning Prevention Projects-State and Community	244,347
93.217	Family Planning Services	769,213
93.279	Drug Abuse Research Programs	8,180
93.556	Family Preservation and Support Services	393,985
93.558	Temporary Assistance for Needy Families	1,169,279
93.561	JOBS	101,929
93.566	Refugee and Entrant Assistance-State Administered Programs	479,321
93.568	Low Income Home Energy Assistance	50,000
93.575	Child Care and Development Block Grant	836,363
93.576	Refugee and Entrant Assistance-Discretionary Grants	142,750
93.596	Child Care Mandatory and Matching Funds of the Child Care & Development.	3,494,357
93.600	Head Start	33,789
93.643	Children's Justice Grants to States	27,559
93.656	Temporary Child Care and Crisis Nurseries	437,750
93.658	Foster Care Title IV-E	237,720

Federal CFDA Number	*Program Title*	*Amount Provided to Subrecipients*
93.669	Child Abuse and Neglect State Grants	452,141
93.671	Family Violence Prevention and Services/Grants for Battered Women	428,822
93.673	Grants to States for Planning and Development of Dependent Care	12,501
93.674	Independent Living	351,298
93.778	Medical Assistance Program	52,179
93.779	Health Care Financing Research, Demonstrations, and Evaluations	115,113
93.854	Biological Basis Research in the Neurosciences	14,488
93.867	Vision Research	5,858
93.912	Rural Outreach - Rural Network Development Program	61,696
93.913	Grants to States for Operation of Offices of Rural Health	20,153
93.938	School Health Programs to Prevent Serious Health Problems	3,573
93.951	Demonstration Grants to States with Respect to Alzheimers Disease	158,697
93.959	Block Grants for Prevention and Treatment of Substance Abuse	3,506,295
93.991	Preventive Health and Health Services Block Grant	231,510
93.994	Maternal and Child Health Services Block Grant to the States	1,153,757
93.999	Miscellaneous Non-Major Program	6,870
94.001	92-93 Commission	21,495
94.005	Learn & Service America --Higher Ed	6,144
94.006	Americorps	1,112,171
99.999	Miscellaneous Non Major Grants	79,940
99.R&D	Miscellaneous R&D	90,780
TOTAL		$150,707,218

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for the fiscal year ended June 30, 1998, and have issued our report thereon dated November 5, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the state of Montana's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to the management of the state of Montana during the course of our audit work.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the state of Montana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters

coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the state of Montana's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs, Section II, #1-1 through #1-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Section II, #1-1 to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to the management of the state of Montana during the course of our audit work.

This report is intended for the information of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

James H. Gillett, CPA
Deputy Legislative Auditor

November 5, 1998

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

Auditor's Report & Findings

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Auditor's Report & Findings

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Legislative Audit Committee
of the Montana State Legislature:

Compliance

We have audited the compliance of the state of Montana with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal years ended June 30, 1998, and June 30, 1999. The state of Montana's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the state of Montana's management. Our responsibility is to express an opinion on the state of Montana's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the state of Montana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the state of Montana's compliance with those requirements.

As described in Section III, item #9-7, in the accompanying schedule of findings and questioned costs, the state of Montana did not comply with a special test and provision concerning implementation of a comprehensive risk analysis and system security review plan. Compliance with such requirements is necessary, in our opinion, to comply with the requirements applicable to the U.S. Departments of Health and Human Services and Education as identified in item #9-7.

In our opinion, except for the noncompliance described in the preceding paragraph, the state of Montana complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal years ended June 30, 1998, and June 30, 1999. The

results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs, Section III, items #2-4, #3-1, #4-1 through #9-4, #10-1 through #10-3, #10-6, #10-9, #10-11, #10-13, #10-14, #10-17, #10-18, and #12-1 through #12-4.

Internal Control Over Compliance

The management of the state of Montana is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the state of Montana's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the state of Montana's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs, Section III, #2-1, #2-2, #2-3, #2-5, #9-6, #9-8, #10-5, and #10-15.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Section III, #2-1, to be a material weakness.

This report is intended for the information of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

James H. Gillett, CPA
Deputy Legislative Auditor

November 18, 1999

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 1999

Section I – Summary of Auditor's Results

General Purpose Financial Statements
For Each of the Fiscal Years 1998 and 1999

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Reportable condition(s) identified that are not considered to be a material weakness?	Yes
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	Yes
• Reportable condition(s) identified that are not considered to be material weakness(es)?	Yes
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.551 & 10.561	Food Stamp Cluster
10.553, 10.555, 10.556, & 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for WIC
10.558	Child and Adult Care Food Program
10.567	Food Distribution Program on Indian Reservations
12.400	Military Construction, National Guard
12.401	National Guard Military Operations & Maintenance Projects
14.239	HOME Investment Partnerships Program
14.855 & 14.857	Section 8 Tenant-Based Cluster
15.199	Tongue River Rehabilitation Grant/Loan
15.252	Abandoned Mine Land Reclamation Program
15.605 & 15.611	Fish and Wildlife Cluster
16.579	Byrne Formula Grant Program
17.225	Unemployment Insurance

State of Montana
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Section I – Summary of Auditor's Results

CFDA Number(s)	Name of Federal Program or Cluster
17.246 & 17.250	Job Training Partnership Act Cluster
20.205	Highway Planning and Construction
66.458	Capitalization Grants for State Revolving Funds
66.605	Performance Partnership Grants
84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 93.364, & 93.925	Student Financial Assistance Cluster
84.010	Title I Grants to Local Educational Agencies
84.027 & 84.173	Special Education Cluster
84.048	Vocational Education - Basic Grants to States
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
93.044 & 93.045	Aging Cluster
93.558	Temporary Assistance for Needy Family Program
93.563	Child Support Enforcement - Title IV-D
93.568	Low Income Home Energy Assistance
93.575 & 93.596	Child Care Cluster
93.658	Foster Care - Title IV-E
93.667	Social Service Block Grant
93.775, 93.777, & 93.778	Medicaid Cluster
93.959	Block Grants - Prevention and Treatment of Substance Abuse
93.994	Maternal and Child Health Services Block Grant to States
96.001	Social Security-Disability Insurance
Various	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 7,199,401
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding #1-1

Criteria: Internal Control Structure
The National Commission on Fraudulent Financial Reporting (the Treadway Commission) was created in 1985 by the joint sponsorship of five organizations which composed the Committee of Sponsoring Organizations (COSO):

- The American Institute of Certified Public Accountants
- The American Accounting Association
- The Institute of Internal Auditors
- The Institute of Management Accountants (formerly the National Association of Accountants)
- The Financial Executives Institute

In 1987, the Treadway Commission recommended COSO develop a common definition of internal control and provide guidance to assist management to better control its organization. COSO issued a document titled *Internal Control - An Integrated Framework*. The definition of internal control includes five elements: control environment, risk assessment, control activities, information and communication, and monitoring.

Condition: The Montana Department of Public Health and Human Services' (department) audit report discusses issues related to fiscal and legal accountability within the department. The department could have prevented, or detected in a timely manner, many of these errors if it developed and implemented a sound internal control structure as we recommended in our prior audit report. Management has not implemented a control structure adequate to prevent, or timely detect and correct, errors in its financial records and fails to comply with program requirements.

Questioned Costs: No questioned costs were identified.

Context: The department spends in excess of $800 million per year for program benefits and administration. Of that total, more than $500 million per year was provided by federal agencies. The department has offices and facilities located geographically throughout the state of Montana and employs about 3,000 people working in nine divisions.

Effect: The department's financial management control structure is not able to prevent or detect many errors. Because of this weakness, the department cannot ensure payments are made to eligible individuals or to others for allowable purposes. The department's inefficient transaction processing does not accurately support federal reporting, does not demonstrate accurate allocation of costs between state and federal programs, and does not prevent discrepancies from existing between the state's primary accounting system and the department's subsystems. The department is not meeting its fiscal and legal responsibilities.

Section II – Financial Statement Findings

Cause: The department's responses to recommendations made in the prior audit report indicated management was aware of its responsibilities in this area. The department, in its response, stated certain organizational changes were to be made within the Operation and Technology Division's Fiscal Bureau to more evenly distribute workload. In addition, the department intended to request internal control reviews be done by staff from the Quality Assurance Division, document policies and procedures, provide training to staff, and address cash receipting. Department management further intended these projects to be done in conjunction with implementation of the state's new accounting system. According to department management, these projects have been hampered by continuing turnover within the Fiscal Bureau; chronic absences; inadequate supervision due to supervisory positions being vacant throughout most of the audit period; the 1999 Legislative Session; and unforeseen resource demands for implementing the state's new accounting system. The department's Fiscal Bureau has received control questionnaires for its accounts payable, payments, and cash receipting processes and has modified procedures for cash receipting.

Recommendation: We recommend the department implement a financial management control structure to help assure financial accountability and compliance with state and federal laws and regulations.

Finding #1-2

Criteria: Section 17-1-102(4), MCA, states in part, that all state agencies shall input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles.

Condition: Montana Department of Public Health and Human Services (department) personnel use the Agency Wide Accounting and Client System (AWACS) to generate vendor and provider payments. Department personnel told us they reconciled AWACS to the department's primary accounting system. We reviewed department procedures for reconciling AWACS and the accounting system and determined personnel did not reconcile AWACS to the primary accounting system. The department's financial records may be misstated and thus misleading to users and federal reports could be misstated. To ensure accurate financial records, the department should implement procedures to completely reconcile AWACS transactions to the accounting system. In addition, supervisory personnel should review the reconciliations for accuracy and completeness and document their review.

Questioned Costs: No questioned costs were identified.

Context: AWACS is one of the department's major computer applications. There are several modules and subsystems within AWACS. These include the following:

Contract Subsystem. This is a contract payment and management system. Users can pay advances, post expenditures against those advances, pay expenditures directly, make corrections to expenditures and advances, and amend contracts to account for legal changes.

Section II – Financial Statement Findings

DDP Subsystem. This is a payment and program management system for the Developmental Disabilities Program. It will pay contractors up to the amount of their contracts.

Fiscal Application. This module provides the department's Fiscal Bureau staff with online views of both AWACS and the department's primary accounting system transactions.

Fiscal Transaction Module. This module provides batch processing which supports and performs daily provider payment functions of AWACS. Data is exchanged daily with the primary accounting system.

VR Subsystem. This module manages client cases, client services, and payments for Vocational Rehabilitation.

Oracle Client and Provider Modules. These modules maintain client and provider information for the department's various bureaus and fiscal units and for the contract subsystem described above.

Effect: We identified 38 unreconciled AWACS transactions which totaled $176,552. These transactions either did not process, had different amounts, or were coded differently than the related accounting system transactions.

Cause: Personnel assume they understand why differences exist between the two systems and do not research the exceptions.

Recommendation: We recommend the department:

A. Implement procedures to reconcile AWACS transactions to the primary accounting system.
B. Complete reconciliations for fiscal years 1997-98 and 1998-99 and process necessary correcting transactions.

Finding #1-3

Criteria: Section 17-1-102(4), MCA, states in part, that all state agencies shall input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles.

Condition: We identified reconciliation issues related to two systems used by the Montana Department of Public Health and Human Services (department). These systems are Child and Protective Services (CAPS), and the Montana Medicaid Management Information System (MMIS). The department has not reconciled its CAPS system to its primary accounting records. Fiscal Bureau personnel were primarily responsible for this reconciliation during the audit period. Fiscal Bureau personnel indicated fiscal year 1997-98 had been reconciled but were unable to provide documentation of their work. Third Party Contributions (e.g. parental support) are not included in the reconciliation. Department personnel stated they reconcile expenditure data provided through MMIS to the accounting records to ensure

State of Montana
Schedule of Findings and Questioned Costs
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Section II – Financial Statement Findings

Medicaid expenditures are recorded according to date and type of service. The reconciliation procedures, however, do not accomplish this. Personnel reconcile MMIS reports to other MMIS reports. The department is at risk of undetected errors in its recorded Medicaid expenditures because personnel do not reconcile MMIS to the primary accounting records.

Questioned Costs: No questioned costs were identified.

Context: The procedures do not include verification by department personnel that the MMIS data is properly recorded in detail on the accounting records according to date and type of service. There are approximately 1350 Medicaid cost centers in the accounting records. Medicaid Cluster expenditures for fiscal years 1997-98 and 1998-99 on the Schedules of Expenditures of Federal Awards (SEFA) were $296.7 million and $309.8 million, respectively.

Foster Care IV-E expenditures for fiscal years 1997-98 and 1998-99 on the SEFA were $6.7 million and $9.2 million, respectively, and for the Aging Cluster were $3.9 million in both fiscal years.

Effect: As of fiscal year-end 1997-98 the net unreconciled difference between CAPS and the accounting records was $213,880 and by fiscal year-end 1998-99, the net unreconciled difference was $70,179.

Cause: Failure to locate the reconciliation documentation has been attributed to a move from one office to another. Personnel attributed failure to complete the fiscal year 1998-99 reconciliations past October 1998 to implementation of the state's new accounting system. According to department personnel, the differences between the accounting records and CAPS are due to financial activity of the Montana Department of Corrections. The accounting system includes the Montana Department of Corrections information but the CAPS report does not. Personnel could not demonstrate this was the case.

Recommendation: We recommend the department:

A. Implement procedures to reconcile its subsidiary systems to its primary accounting records.
B. Complete the reconciliations of CAPS and MMIS to the primary accounting records for fiscal years 1997-98 and 1998-99.

Section III – Federal Award Findings and Questioned Costs

Finding #2-1 U.S. Department of Agriculture
CFDA #10.551 & 10.561 Food Stamp Cluster
CFDA #10.557 Special Supplemental Nutrition Program for WIC
CFDA #10.558 Child and Adult Care Food Program
CFDA #10.567 Food Distribution Program on Indian Reservations
U.S. Department of Education
CFDA #84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States
U.S. Department of Health and Human Services
CFDA #93.044 & 93.045 Aging Cluster
CFDA #93.558 Temporary Assistance for Needy Family Program
CFDA #93.563 Child Support Enforcement - Title IV-D
CFDA #93.568 Low Income Home Energy Assistance
CFDA #93.575 & 93.596 Child Care Cluster
CFDA #93.658 Foster Care - Title IV-E
CFDA #93.667 Social Service Block Grant
CFDA #93.775, 93.777, & 93.778 Medicaid Cluster
CFDA #93.959 Block Grants-Prevention and Treatment of Substance Abuse
CFDA #93.994 Maternal and Child Health Services Block Grant to States
U.S. Department of Social Security Administration
CFDA #96.001 Social Security - Disability Insurance

See Schedule of Findings and Questioned Costs, Section II – Financial Statement Findings, finding #1-1. This finding is also reported under separate federal agencies in findings #9-5, #10-4, and #11-1 in the Schedule of Findings and Questioned Costs, Section III – Federal Award Findings and Questioned Costs.

Finding #2-2 U.S. Department of Agriculture
CFDA #10.557 Special Supplemental Nutrition Program for WIC
U.S. Department of Health and Human Services
CFDA #93.558 Temporary Assistance for Needy Family Program
CFDA #93.563 Child Support Enforcement - Title IV-D
CFDA #93.575 & 93.596 Child Care Cluster
CFDA #93.658 Foster Care - Title IV-E
CFDA #93.667 Social Services Block Grant

Criteria: Under the terms of the Cash Management Improvement Act (CMIA) agreement (section 7.9), the Montana Department of Public Health and Human Services (department) must draw funds for each program based on a warrant clearance pattern established by the Montana Department of Administration. The clearance pattern is an estimate of the time required for warrants to clear the bank. Drawing funds in accordance with the established clearance pattern provides assurance federal cash is properly managed. 31 CFR 205.8(c) and the CMIA agreement include provisions for revising CMIA agreements when actual clearance patterns change. Specifically, "If a State has actual or

Section III – Federal Award Findings and Questioned Costs

constructive knowledge, at any time, that a clearance pattern does not correspond to a program's clearance activity, or if a program undergoes operational changes that may affect clearance activity, the State shall: (i) Immediately notify the FMS in writing of the program requiring a new clearance pattern, and (ii) Develop a new clearance pattern and certify that it corresponds to a program's clearance activity."

Condition: The Cash Management Improvement Act (CMIA) of 1990 required the U.S. Treasury to enter into agreements with states to establish cash management procedures for certain federal programs. We reviewed the department's procedures for managing cash in its federal programs. The following paragraphs summarize the cash management problems we found.

The Child Care Development Fund (CFDA #93.596) replaced the Child Care Development Block Grant in October 1998. At the time of the program conversion, $600,000 was moved from the old account to the new account, with an additional $375,000 being left in the old account where it remained for approximately six months.

Cash draws for the Foster Care - Title IV-E program were generally made one day earlier than specified by the CMIA agreement during the audit period.

Cash draws for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Child Support Enforcement (CSE), and Social Services Block Grant (SSBG) programs were not done in accordance with the CMIA agreement. Personnel drew cash for SSBG based on an analysis of the cash balance in the account in relation to expenditures incurred, rather than on the expenditure activity as outlined in the CMIA agreement. Personnel drew cash for CSE based on analysis of cash outlays and program income; the CMIA for this program considers only the cash outlays made during the previous week. Personnel drew cash for WIC one to two days after the time specified in the CMIA.

Cash draws for the Temporary Assistance for Needy Family Program violated the CMIA 13 times during fiscal year 1997-98. The department drew 1/26 of its annual administration allotment every two weeks rather than drawing 1/6 of the quarterly administrative allowance as specified in the CMIA. The amounts drawn for administrative costs exceeded costs recorded in the accounting records because the department's allocation of overhead costs was processed less frequently than biweekly.

Questioned Costs: No questioned costs were identified.

Context: CMIA draws totaled $304 million in fiscal year 1997-98.

Effect: The department is not in compliance with CMIA agreement requirements. Drawing cash too soon can result in the state owing interest to the federal government.

Cause: Personnel responsible for making cash draws during the audit period did not receive appropriate supervision. Although individuals were assigned supervisory responsibilities, this was in addition to their other duties, and two new supervisory positions within the fiscal bureau, intended to

Section III – Federal Award Findings and Questioned Costs

address recommendations made in the prior audit, were unfilled throughout the audit period. Some draws were not in compliance with CMIA because of a misunderstanding as to what constituted the issuance date on a warrant. Personnel who considered other resources available (e.g. program income) did so to avoid building cash balances in the federal accounts; this appears reasonable, but violates the CMIA. The department should review its cash management procedures and request revisions to CMIA as needed. The revisions should address changing clearance patterns, availability of program income and the need to minimize the use of state monies to finance federal programs. The department should direct personnel to draw funds in accordance with the CMIA agreement.

Recommendation: We recommend the department:

A. Draw funds in accordance with federal regulations.
B. Monitor the results of CMIA and request modifications to the agreement when necessary.
C. Provide adequate training and supervision to staff responsible for making cash draws.

This finding is also reported under a separate federal agency in finding #10-8 in the Schedule of Findings and Questioned Costs, Section III – Federal Award Findings and Questioned Costs.

Finding #2-3 U.S. Department of Agriculture
CFDA #10.557 Special Supplemental Nutrition Program for WIC
U.S. Department of Health and Human Services
CFDA #93.994 Maternal and Child Health Services Block Grant to States
CFDA #93.667 Social Services Block Grant

Criteria: OMB Circular A-133, Section 400, establishes requirements for monitoring federal funds subgranted.

Condition: The Montana Department of Public Health and Human Services (department) subgrants state and federal funds to other entities. During our audit we noted concerns related to the department's monitoring of funds provided to subrecipients of the programs noted above.

Maternal and Child Health Block Grant to States (MCH)
The Montana Department of Commerce, Local Government Services Bureau, ensures local governments receive required audits. Bureau personnel review audit reports completed by private audit firms for documentation indicating the local government is in compliance with state and federal laws and regulations. Bureau personnel notify state agencies of instances of noncompliance. The state agencies can use this information to determine if those issues require additional follow up. We noted Bureau personnel sent a letter to the department regarding a compliance issue related to a $2,315 overpayment to a county from the MCH. We were unable to determine whether anyone in the department followed up on the compliance issue or requested return of the money.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
The department does not report the results of local WIC office inspections in a timely manner as required by its state plan and federal regulations. The state plan for the WIC program requires department managers to formally report the results of the inspection to the local office within 30 days. A local office has 30 days to respond to the inspection report with a corrective action plan.

Social Services Block Grant (SSBG)
Department personnel are not monitoring SSBG subrecipient audits in accordance with federal regulations. As required by federal regulation, the department mandates private nonprofit organizations obtain an audit when they receive $300,000 or more in federal awards annually. Department personnel who monitor the audits and review compliance concerns did not notice that one nonprofit organization subject to a Single Audit has not submitted an audit report since 1994. The department continues to contract with the organization. Because the nonprofit organization is not in compliance with federal audit requirements, the amounts disbursed to the organization are unallowable.

Questioned Costs: We question $455,779 and $462,615 of charges to the SSBG program for fiscal years 1997-98 and 1998-99, respectively.

Context: The department subgranted approximately $1.1 million of MCH funds to the 56 counties in the state of Montana.

We noted several instances where WIC inspections were not reported to local offices within the required 30-day time period. For example, the department conducted two inspection visits in May 1999. However, no formal reports were prepared or issued as of October 1999.

We tested 6 providers from a total of 53 SSBG providers. Total SSBG expenditures on the Schedule of Expenditures of Federal Awards were $7.5 million for each fiscal year 1997-98 and 1998-99.

Effect: The department can not ensure it disburses federal assistance to eligible recipients for allowable purposes.

Cause:
Maternal and Child Health Block Grant to States: The Montana Department of Commerce, Local Government Services Bureau, letter was addressed to the Family and Community Health Bureau, but personnel in the bureau do not remember receiving the letter.

Special Supplemental Nutrition Program for WIC: Department personnel indicated inspection reports are sometimes delayed due to other responsibilities taking precedence.

Social Service Block Grant: When we asked about this provider, personnel learned audits were not performed because the organization did not have all of its financial information "pulled together" for audit.

Section III – Federal Award Findings and Questioned Costs

Recommendation: We recommend the department monitor subrecipients of federal awards as required by federal regulations.

This finding is also reported under a separate federal agency in finding #10-10 in the Schedule of Findings and Questioned Costs, Section III – Federal Award Findings and Questioned Costs.

Finding #2-4 U.S. Department of Agriculture
CFDA #10.567 Food Distribution Program on Indian Reservations

Criteria: 7 CFR 250.16(a) states accurate and complete records shall be maintained with respect to receipt, distribution/use and inventory of donated foods.

Condition: The Montana Department of Public Health and Human Services (department) participates in federal Food Commodities programs. To reduce the risk of theft during shipment, department policy requires that both the shipping invoice and the load checklist and receipt document be signed by warehouse personnel when commodities are drawn from inventory; by the driver when received by truck driver; and by the recipient's representative at the final destination. These signatures are necessary to track the change in custody as the food commodities move from the warehouse to the recipients. Department personnel in the food distribution warehouse do not always ensure shipments of food commodities are controlled as required by department policy. We reviewed the shipping invoices and the load checklist and receipt documents for all shipments during May 1998 and January 1999.

Questioned Costs: No questioned costs were identified.

Context: We selected two months from the 24 months in the audit period. During these two months there were 19 shipments of food. Total expenditures on the fiscal years 1997-98 and 1998-99 Schedules of Expenditures of Federal Awards for the Food Distribution Program on Indian Reservations were $4 million and $3 million, respectively.

Effect: We noted three invoices and one load checklist and receipt document that were not signed by the driver or warehouse personnel as required by department policy.

Cause: Oversight on the part of department personnel.

Recommendation: We recommend the department ensure food commodity shipments are controlled as required by department policy.

Finding #2-5 U.S. Department of Agriculture
CFDA #10.557 Special Supplemental Nutrition Program for WIC
CFDA #10.567 Food Distribution Program on Indian Reservations
U.S. Department of Health and Human Services

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

CFDA #93.558 Temporary Assistance for Needy Family Program
CFDA #93.775, 93.777, & 93.778 Medicaid Cluster

Criteria: 7 CFR 3015.61 & 45 CFR 92.20 requires the state to expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Section 17-1-102(4), MCA, states in part, that all state agencies shall input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles.

Condition:

Unrecorded Accounts Receivable

The Montana Department of Public Health and Human Services (department) routinely receives money from several entities as a direct result of its participation in federal programs. These sources include:

- rebates from drug manufacturers due to the large volume of drugs paid for by the Medicaid program.
- reimbursements from private insurance companies and Medicare for medical services originally paid for by Medicaid but which are the responsibility of the other entities.
- rebates from baby formula manufacturers for the amount of formula purchased through the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

These entities owed money to the department at June 30, 1999. However, the department did not record accounts receivable at June 30, 1999, for Medicaid drug rebates, third party payments due to the department, and WIC rebates. We noted the department failed to record approximately $8,550,000 of accounts receivable on the state's accounting records at June 30, 1999.

Improper Expenditure Abatements

The department improperly reduces or abates expenditures and increases its appropriation authority when it receives certain moneys. State policy generally requires that revenue or a transfer-in transaction be recorded when an agency receives cash or other financial resources from outside parties. The policy allows the agencies to abate expenditures only for accounting errors and other limited instances where a transaction is nonrecurring and nonroutine in nature. The improper abatements were for Medicaid collections from third parties such as private insurance companies, responsible parties, and lien and estate recoveries. Because these third party collections are an integral part of the Medicaid program, the department should have recorded the amounts collected as program income instead of expenditure abatements.

Section III – Federal Award Findings and Questioned Costs

The department improperly reduced expenditures on its accounting records by $1,828,602 and $2,392,310 in fiscal years 1997-98 and 1998-99, respectively. The department also understated revenue on its accounting records by the same amounts.

Subsidiary Detail Ledgers

Local governments participate in the department's public assistance programs. The department makes assistance payments and subsequently bills counties for their share of the payments. We reviewed the billing process and noted three subsidiary detail ledger (SDL) accounts related to amounts owed by local governments which have been on the accounting records since fiscal year-end 1996-97 and one which has been on the accounting records since fiscal year-end 1997-98. The amounts of the SDLs are $(191,183); $33,235; $191,183; and $6,797. The balances in these SDLs have remained unchanged since they were established. The descriptions attached to the accounts indicate these SDLs were established to assist the department in balancing its special revenue fund accounts, but were not established in the level of detail necessary to clearly identify each entity which owes the department money. According to fiscal bureau personnel, these accounts are excluded from the department's reconciliation of amounts owed by individual local governments. This indicates the balances are in error. By excluding these accounts from its reconciliation process, the department, in fact, does not fully reconcile the amounts owed by local governments. Without a complete reconciliation, the department cannot be assured it collects the moneys to which it is entitled.

The department routinely used advance and prepaid expense accounts when processing vendor and provider payments during fiscal years 1997-98 and 1998-99. Advance accounts should be used when cash is advanced to entities external to the state for expenditure (e.g. advance funding a local government project). Prepaid expense accounts should be used for prepaying goods and services not yet received (e.g. rent and unexpired insurance premiums).

When the department uses advance and prepaid expense accounts, it must assign a subsidiary detail ledger identification number. The identifiers are intended to assist personnel in monitoring the subsequent resolution of the account balances. During our audit, we noted department personnel do not clear SDLs on a timely basis. We identified advance and prepaid SDLs with erroneous balances. These balances were negative at June 30, 1999, and totaled ($40,684) and ($24,900), respectively. The negative balances are an indication the department has errors within its expenditure activity.

We also identified several advance and prepaid expense SDLs which have been on the accounting records in the same amounts for over one year. These balances, which are primarily in the General Fund, were $1,402,954 and $85,900, respectively. Balances which remain on the accounting records for an excessive period of time increase the risk the department has unrecorded expenditures. Moneys advanced or prepaid should be expensed within a reasonable amount of time. According to the Montana Constitution, money is to be paid out of the state treasury only on appropriation made by law. Leaving advance and prepaid balances on the accounting records could mask overspent appropriations. In those cases where moneys were advanced on behalf of federal assistance programs, the department unnecessarily delays the receipt of federal reimbursement. The department's controls over its

transaction processing cycles should include procedures to identify and correct erroneous SDL balances.

Other Accounting Errors

The following paragraphs summarize additional accounting errors we identified during the audit.

- The department did not record all the financial activity necessary to properly accrue and defer revenue in the federal special revenue accounts by June 30, 1998, or by June 30, 1999, as required by state accounting policy. Accrual and deferral transactions are necessary in federal accounting entities to match revenue with the applicable expenditures each fiscal year. There were errors in 31 of 159 accounts reviewed ranging from under $5 to over $900,000. These errors impacted amounts due from the federal government, due to the federal government, deferred revenue, federal revenue, transfers-in, transfers-out, and amounts due to or due from other accounting entities.

  Review of the department's general ledgers could have detected and prevented many of these errors. This concern was addressed in the prior audit report where 53 of 135 accounts were in error. Although there has been some improvement in the number of errors since the last audit, continued department effort is necessary to correct or prevent the errors. Department personnel indicated implementation of the state's new accounting system required a significant personnel commitment which reduced the resources available to reconcile the general ledger accounts.

- During the fiscal year-end 1998-99 cut-off period, the department improperly recorded "prepaid expense" and "accounts payable" amounting to $8,056,871. This error occurred when an employee did not ensure an expenditure transaction was recorded in the proper year. Department personnel erroneously reclassified the expenditure as a "prepaid expense." The department's transaction review and approval process is not properly designed to prevent, or detect and correct, errors of this kind. While the department's review process identified the original transaction error, personnel did not review the nature of the transaction during the correction process. Had this type of review been required and performed, personnel would have purged the transaction from fiscal year 1998-99 and recorded it in fiscal year 1999-2000.

- The department abated foster care expenditures in the General and Federal Special Revenue Fund accounts and charged the expenditures to a State Special Revenue account. Documentation provided in support of these transactions indicates the expenditures were transferred to correct a negative General Fund appropriation and bring it back to a positive balance. To provide a funding source for the expenditures in the State Special Revenue Fund, the department recorded a receivable and recognized revenue in that fund. The amount recognized as revenue was derived from an analysis of collections from overpayments to providers and from third parties in previous years. Control procedures over this analysis were inadequate as they did not include consideration of revenue recognition criteria. The revenue transaction does not meet "measurable and available" criteria. The department has no evidence that it will receive the revenue in time to pay the fiscal

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year 1998-99 liabilities. As a result, charges for services revenues and accounts receivable are overstated by $318,434.

Questioned Costs: No questioned costs were identified.

Context: These errors were identified during our audit of the department's financial records for fiscal years 1997-98 and 1998-99. The department recorded expenditures of approximately $838 million and $867 million during these years, respectively.

Effect: The department cannot ensure it has recorded all transactions necessary to account for its moneys and property in accordance with generally accepted accounting principles which, in turn, diminishes its ability to make informed decisions concerning its finances. In addition, the department cannot ensure it complies with federal and state laws and regulations concerning the use of its resources.

Cause: Department personnel indicated the financial activity related to drug rebates and third party payments are netted against the fiscal year-end Medicaid expenditure accrual amount on the department's financial records. Personnel working in the WIC program calculated the WIC rebates owed, but the Operations and Technology Division Fiscal Bureau did not process the required transactions.

Recommendation: We recommend the department:

A. Implement procedures to identify and record accounts receivable.
B. Implement procedures to ensure it complies with state accounting policies concerning expenditure abatements.
C. Review its subsidiary detail ledgers and process any necessary corrections for amounts owed to the department by local governments, amounts advanced to vendors and providers, and amounts prepaid to vendors and providers.
D. Implement controls to ensure its subsidiary detail ledgers accurately reflect the details of accounts at the general ledger level.
E. Implement procedures to provide assurance accounting errors are either prevented or detected and corrected in a timely manner.

This finding is also reported under a separate federal agency in finding #10-16 in the Schedule of Findings and Questioned Costs, Section III - Federal Award Findings and Questioned Costs.

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Finding #3- 1 U.S. Department of Housing and Urban Development
CFDA #14.855 & 14.857 Section 8 Tenant-Based Cluster

Criteria: OMB Circular A-133, Compliance Supplement, Part 3 L Reporting requires federal financial reports agree with the accounting records.

Condition: The Montana Department of Commerce (department) is responsible for the administration of the federal Housing and Urban Development (HUD) Section 8 and Public Housing Programs. These programs provide housing assistance to individuals meeting certain income criteria. We noted a report to HUD that did not tie to the state's accounting records as required by federal regulation. The department reported the HUD account had nearly $1,000,000 more cash than was actually in the state treasury.

Questioned Costs: No questioned costs were identified.

Context: For the 1997-98 and 1998-99 biennium, the state recorded $21,321,952 of expenditures on the Schedules of Expenditures of Federal Awards.

Effect: The department is not in compliance with OMB Circular A-133 financial reporting requirements.

Cause: Department personnel stated they have a system in place to ensure the revenue and expenditure amounts on the HUD-52681 report agree to the state's accounting records. They have not attempted to tie each amount on the balance sheet report for administrative costs to the accounting records for several years. Personnel indicated the cash and fund balance amounts are individual amounts on the state's accounting records but have to be split out into 15 different balance sheet accounts reported to HUD. Department personnel believe the mistake could have been made several years ago on the allocation process and was carried forward to the current reports.

Recommendation: We recommend the department reconcile cash on the HUD-52681 report to that reported on the state's accounting system.

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Finding #4-1 U.S. Department of the Interior
CFDA #15.252 Abandoned Mine Land Reclamation Program

Criteria: The Cash Management Improvement Act (CMIA) agreement between the U.S. Department of the Treasury and the state of Montana requires the Montana Department of Environmental Quality (department) to draw Abandoned Mine Land Reclamation (AMLR) Program funds four days after state warrants are issued.

Condition: During our review of cash draws made in four months, we noted nine cash draws that were made between four and 38 days before the funds should have been drawn. In addition, we noted 15 cash draws where the department drew federal cash later than the agreed upon time schedule by up to eight days.

Questioned Costs: No questioned costs were identified.

Context: Cash draws from four judgmentally selected months of 24 months during state fiscal years 1996-97 and 1997-98 were tested.

Effect: For fiscal year 1996-97, the state of Montana paid $24,082 in interest to the U.S. Department of the Treasury because cash draws for this federal program were not in compliance with the CMIA.

Cause: The department's employee responsible for drawing award funds was relatively new to the position and was unaware of the requirements outlined in the CMIA agreement.

Recommendation: We recommend the department request AMLR cash in accordance with the state/federal cash management agreement.

Finding #4-2 U.S. Department of the Interior
CFDA #15.605 & 15.611 Fish and Wildlife Cluster

Criteria: OMB Circular A-133, Section 400, establishes requirements for monitoring federal funds subgranted.

Condition: The Montana Department of Fish, Wildlife, and Parks (department) was unable to provide our office with a list of federal funds subgranted during fiscal year 1997-98. The department has not established procedures to comply with the above section of OMB Circular A-133.

Questioned Costs: No questioned costs were identified.

Context: Wildlife & Sport Fish Restoration Cluster expenditures during fiscal year 1997-98 were $9,962,319. The department was unable to provide a dollar amount of federal funds subgranted.

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Effect: The department is not in compliance with subrecipient monitoring requirements.

Cause: Department personnel are currently working on establishing procedures for complying with federal requirements for subgranting federal awards.

Recommendation: We recommend the department develop and implement procedures to:

A. Inform subrecipients of audit requirements for entities receiving federal awards.
B. Provide subrecipients with information necessary to identify subgrants that include federal funds.
C. Follow up on subrecipients' audit recommendations related to funds subgranted and ensure the subrecipient takes adequate and timely corrective action.

Finding #4-3 U.S. Department of the Interior
CFDA #15.605 & 15.611 Fish and Wildlife Cluster

Criteria: OMB Circular A-87, Attachment B, Section 11-d(2) & h(5), requires compensation for personnel services be equitably allocated to all related activities based on the actual activity of each employee.

Condition: We reviewed the Montana Department of Fish, Wildlife, and Parks (department) Wildlife and Fisheries Divisions' procedures for employees allocating leave taken and hours worked to projects on their timesheets. Employees in these divisions may work on a number of different projects during a pay period. Most of the projects are a combination of state and federal funding. Department employees stated there is not a documented system for charging leave taken to the specific project where the leave was earned. One employee earned leave time on projects funded with a combination of federal and state funds, but charged all the leave to the state. The employee stated he charges his time to the project where he spent the majority of his time, and he does not maintain an accurate breakdown of hours worked on each project. We noted, in general, department employees record their actual time spent on each project during a pay period on their time sheets. However, we noted one employee was assigned nine projects in fiscal year 1997-98; four of the projects were 100 percent state funded; five projects were 25 percent state and 75 percent federal funded. Time sheets reviewed showed 100 percent of the employee's time was charged to a project funded with a state/federal split.

Questioned Costs: No questioned costs were identified.

Context: We reviewed procedures in two of the department's seven divisions for charging leave taken and hours worked to various projects. Based on the review, employees do not allocate leave taken to projects where it was earned.

Effect: The state and federal government may not be paying the appropriate share of personal service costs.

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Cause: Department officials stated they are working on developing a system for employees to charge leave to projects where the leave is earned. Department personnel stated department policy requires employee time sheets to reflect actual time worked and that employees were recently reminded of this policy.

Recommendation: We recommend the department:

A. Develop procedures for employees to charge leave to projects where the leave is earned.
B. Ensure employees charge actual time worked on each project on their time sheet.

Finding #4-4 U.S. Department of the Interior
CFDA #15.605 & 15.611 Fish and Wildlife Cluster

Criteria: OMB Circular A-87, Attachment A, Part C, Sections 1(c) and 1(g), states for costs to be allowable under federal awards, the costs must be in accordance with generally accepted accounting principles. Section 17-1-102, MCA, requires agencies to record all necessary transactions on the state's accounting system by fiscal year-end in accordance with generally accepted accounting principles.

Condition: The Montana Department of Fish, Wildlife, and Parks (department) operates the Upland Game Bird Habitat Enhancement Program. Part of this program includes assisting landowners in purchasing grass seed to enhance bird habitat areas. The department moved approximately $238,000 of fiscal year 1997-98 expenditures to fiscal year 1998-99.

Questioned Costs: Since these were not valid fiscal year 1998-99 expenditures, we question $178,000 (federal share) of charges to the U.S. Department of the Interior Wildlife Restoration Grant.

Context: This is the only transaction we noted of this nature during the audit.

Effect: Expenditures are understated by $238,000 in fiscal year 1997-98 and overstated by the same amount in fiscal year 1998-99.

Cause: Department officials stated the cost of grass seed increased significantly in fiscal year 1997-98. The department ran out of federal funding for fiscal year 1997-98 and moved the expenditures to fiscal year 1998-99 in order to access federal funds and honor contracts with the landowners.

Recommendation: We recommend the department record expenditures in the fiscal year there is a valid obligation.

Finding #4-5 U.S. Department of the Interior
CFDA #15.252 Abandoned Mine Land Reclamation Program
U.S. Environmental Protection Agency

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CFDA #66.458 Capitalization Grants for State Revolving Funds
CFDA #66.605 Performance Partnership Grants

Criteria: OMB Circular A-87, Attachment B, Section 11(d)(2), requires compensation for personnel services be equitably allocated to all related activities.

Condition: The Montana Department of Environmental Quality (department) maintains leave cost pools with two different rates used to fund leave taken by certain employees who accumulate leave while working in state and federal programs. The two leave pools were moved to the department from two former state agencies when state programs were reorganized to form the department. Leave of the majority of department employees is not covered by either of the two leave pools.

Questioned Costs: No questioned costs were identified.

Context: Approximately 30 department employees were covered by the two leave pools. The department was budgeted for 334 employees for state fiscal year 1997-98.

Effect: For the leave pool costs to be allowed for federal programs, the costs must be uniformly applied to all related activities of the governmental unit. Since the leave pool rates are not consistently applied to all employee leave, the costs may be unallowable under federal regulations.

Cause: Only portions of leave pool accounts were moved to the department when state programs were reorganized to form the department. In addition, department personnel were not familiar with the accounting procedures used by the other agencies.

Recommendation: We recommend the department review its leave accounting procedures and ensure the procedures are uniformly and equitably applied.

This finding is also reported under a separate federal agency in finding #8-1 in the Schedule of Findings and Questioned Costs, Section III – Federal Award Findings and Questioned Costs.

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Finding #5-1 U.S. Department of Labor
CFDA #17.249 Employment Services & Job Training

Criteria: OMB Circular A-87, Attachment B, Section 11(d)(3). When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.

Condition: The Montana Office of Public Instruction (office) charges termination payouts for program personnel directly to the programs, including federal grants, they are working on at the time of termination. The office charged 100% of the termination payout for an individual to the School to Work program. The individual worked approximately one year on the program prior to the termination.

Questioned Costs: We question $11,857 of expenditures charged to the School to Work program.

Context: Total program expenditures for fiscal year 1998-99 were $1,353,936. Of this, $1,245,577 was directly distributed to school districts, $52,103 was charged to the administration account and $56,256 was charged to the school to work projects - leadership account.

Effect: The office is not in compliance with OMB Circular A-87.

Cause: According to office personnel, the office did not have the General Fund authority sufficient to cover these termination costs. Historically it has been their practice to charge the termination costs to the program the individual was working on at the time of termination.

Recommendation: We recommend the office charge termination costs in accordance with OMB Circular A-87.

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Finding #6-1 U.S. Department of Transportation
CFDA #20.205 Highway Planning and Construction

Criteria: OMB Circular A-133, Section 400, establishes requirements for monitoring federal funds subgranted.

Condition: The Montana Department of Transportation (department) subgrants federal funds to other entities. Federal regulations require the department to review the results of audits of subrecipients as necessary to determine whether corrective action has been taken with respect to audit findings. Our prior audit of the department noted concerns related to the department's monitoring of federal funds provided to subrecipients. In response to the prior recommendation, the department met with the employees responsible for the federal programs and notified them of the federal regulations. Department officials stated the employees responsible for the federal programs are responsible for developing and implementing procedures to ensure compliance with the federal regulations. We noted procedures were implemented to comply with the federal regulations for some of the federal funds subgranted. However, we noted areas where procedures have not been implemented.

The Highway Planning and Construction – Local Technical Assistance Program (CFDA #20.205) has monitoring procedures; however, they do not obtain and review audit reports of subgrantees for findings or complete a corrective action plan.

We noted the department has established subgrant monitoring procedures for the Highway Planning and Construction – Metropolitan Planning Program (CFDA #20.205). However, the agreement used for subgranting federal funds has not been updated to include language detailing OMB Circular A-133 requirements.

Additionally, we requested a list of federal funds the department subgranted to other entities. Our audit of the list determined it was incomplete. The department should establish procedures to ensure it is aware of all federal funds subgranted.

Questioned Costs: No questioned costs were identified.

Context: Since the list provided to us was incomplete, we were unable to determine the total amount of federal funds subgranted. However, the minimum amounts subgranted in fiscal years 1997-98 and 1998-99 were approximately $6.3 million and $7.5 million, respectively.

Effect: The department is not in compliance with all subrecipient monitoring requirements of OMB Circular A-133.

Cause: Local Technical Assistance Program personnel stated they were unaware of the requirement to obtain and review audit reports and follow-up on findings. Metropolitan Planning Program agreements used for subgranting federal funds have not been updated to include language for OMB Circular A-133 requirements.

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Recommendation: We recommend the department establish procedures to ensure all federal funds subgranted are monitored in accordance with federal regulations.

Finding #6-2 U.S. Department of Transportation
CFDA #20.205 Highway Planning and Construction

Criteria: The state of Montana has an agreement with the U.S. Secretary of the Treasury which sets forth the terms and conditions agreed to by the state of Montana and the federal government to implement the federal Cash Management Improvement Act of 1990 (CMIA).

Condition: The agreement establishes a federal cash request schedule based on warrant clearing patterns for large federal assistance programs in the state of Montana. Included under the CMIA agreement is the U.S. Department of Transportation, Highway Planning and Construction grant, from which the Montana Department of Transportation (department) receives the majority of its federal funding.

Our prior audit reviewed the department's procedures for requesting federal funds in accordance with the CMIA agreement and recommended the department provide the Department of Administration with the actual date of receipt of funds as opposed to the expected date of receipt. The department revised its procedures to use the date the collection report was recorded on the state's accounting records. Although using the collection report date indicates funds have been received, the collection report may or may not be prepared on the date the state treasury actually received the federal funds.

The Department of Administration is required to complete the annual interest calculation report for the state of Montana. This includes ensuring departments requested and received federal funds according to the agreement. Discrepancies in timing of cash requests or disbursements may result in either interest due to or due from the federal government. If inaccurate information is furnished, the Department of Administration is unable to properly determine compliance with the CMIA agreement.

Questioned Costs: No questioned costs were identified.

Context: The department expended approximately $177 million and $217 million related to this grant in fiscal years 1997-98 and 1998-99, respectively. We reviewed 37 requests for funds and determined 20 instances where the collection report date was different than the date the funds were received. We noted a variance of up to 11 days between collection report date and funds receipt date.

Effect: The state is unable to properly determine compliance with the CMIA agreement.

Cause: Department personnel stated the spreadsheet given to the Department of Administration is completed towards the end of the fiscal year; therefore, they use the date the collection report was recorded on the state's accounting records, since the date the cash was received by the state treasurer is not available at that time.

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Recommendation: We recommend the department provide the Department of Administration with the date federal funds are received by the state.

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Finding #7-1 National Science Foundation
CFDA #47.076 Education and Human Resources
Research and Development Cluster

Criteria: OMB Circular A-110, Subpart C, Section 23(d), stipulates rates for volunteer services are to be consistent with those paid for similar work in the recipient's organization.

Condition: The University of Montana-Tech (university) operates the Mineral Education Program for Young Scholars (MEPYS). Cost sharing for this award included volunteer services by both the university's employees and local mining businesses (industry partners). MEPYS award records did not contain adequate documentation to demonstrate compliance with the federal award cost-sharing requirement.

Questioned Costs: We question $13,438 of cost sharing for the federal program.

Context: The university cost-sharing requirement for this federal award was $116,396 for the period between February 1995 and June 1997. The university documentation supports $102,958.

Effect: MEPYS award cost sharing was understated by $13,438.

Cause: The principal investigator was not aware of the federal requirements governing allowable cost sharing and documentation requirements.

Recommendation: We recommend the university:

A. Improve controls over federal reporting and cost sharing requirements for federal awards.
B. Ensure principal investigators for federal awards are adequately trained to ensure compliance with federal regulations.

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Finding #8-1 U.S. Environmental Protection Agency
CFDA #66.458 Capitalization Grants for State Revolving Funds
CFDA #66.605 Performance Partnership Grants
U.S. Department of the Interior
CFDA #15.252 Abandoned Mine Land Reclamation Program

See Schedule of Findings and Questioned Costs, Section III – Federal Award Findings and Questioned Costs, finding #4-5.

Finding #8-2 U.S. Environmental Protection Agency
CFDA #66.458 Capitalization Grants for State Revolving Funds

Criteria: 40 CFR 31 requires financial reports be submitted annually.

Condition: The Montana Department of Environmental Quality (department) has not prepared and submitted federal Financial Status Reports for the State Revolving Fund Grants since 1995.

Questioned Costs: No questioned costs were identified.

Context: According to department personnel, the department expended or loaned State Revolving Fund Grant amounts of $9 million and $7.2 million in fiscal years 1996-97 and 1997-98, respectively.

Effect: Noncompliance with federal reporting requirements.

Cause: Department personnel indicated the Financial Status Reports have not been completed in a timely manner due to the department's reorganization and other department priorities. Department Centralized Services Division is in the process of preparing the past due reports.

Recommendation: We recommend the department prepare and submit federal Financial Status Reports in a timely manner as required by federal regulations.

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Finding #9-1 U.S. Department of Education
CFDA #84.027 & 84.173 Special Education Cluster

Criteria: 34 CFR 80.42 requires records be retained for three years after its final expenditure report is submitted for the related award period. Section 2-6-212, MCA, requires state agencies retain public records according to schedules approved by the state records committee. State policy requires retention of records relating to grants for five years.

Condition: The Montana Office of Public Instruction (office) disburses Special Education - Grants to States funding to eligible school districts. We tested the office's procedures for ensuring school districts complied with the maintenance of effort requirements. During our review, we requested the school district child count certifications for 1993 through 1996. Office personnel were unable to locate these documents to support the maintenance of effort determinations.

Questioned Costs: No questioned costs were identified.

Context: There are approximately 62 Special Education Program applicants for each school year. Applicants include individual schools, school districts, and special education cooperatives formed by schools and districts. We tested two applicants: one cooperative for the 1997 school year and one school for the 1998 school year.

Effect: By not maintaining child count certifications for three years after the final expenditure report is submitted, the office is in non-compliance with state and federal records retention requirements.

Cause: Office personnel were unable to locate documents to support the maintenance of effort determinations.

Recommendation: We recommend office establish procedures to ensure compliance with applicable records retention requirements.

Finding #9-2 U.S. Department of Education
CFDA #84.048 Vocational Education - Basic Grants to States

Criteria: The Cash Management Improvement Act (CMIA) requires the U.S. Secretary of Treasury to enter into agreements with states to establish terms and conditions for cash management of certain federal grant programs. The CMIA agreement applies to the Montana Board of Regents and Office of the Commissioner of Higher Education (office) Vocational Education - Basic Grants to States program. The CMIA agreement between the U.S. Department of Treasury and the Montana Department of Administration requires the office to draw cash to arrive six days after a state warrant is disbursed for grant expenditures. This requires the office to wait approximately five days after a warrant is issued before processing a cash draw on its federal account. Under the agreement, the office must request funds based upon two patterns of expenditures. The office should request federal cash on an average

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clearance pattern for the payment of benefit expenses. The benefit expenses occur when the office makes payments for grant projects to the Office of Public Instruction, university units, or community-based organizations. The second method provides cash to pay direct administrative costs and should be requested every two weeks to coincide with the biweekly payroll.

Condition: Based on our review of the office's cash draw and payment patterns, office personnel generally drew cash four days earlier than they should have according to the CMIA agreement. This concern was also reported to the office in the prior audit report.

Questioned Costs: No questioned costs were identified.

Context: We noted the office normally processed a wire transfer of federal cash one day after a state warrant was issued.

Effect: By requesting the funds in accordance with the established clearance pattern, the office can ensure federal cash is managed in accordance with the CMIA.

Cause: According to office personnel, the clearance patterns outlined in the CMIA were not always followed because of turnover in accounting personnel.

Recommendation: We recommend the office establish procedures to ensure it complies with the cash management improvement act agreement as required by federal law.

Finding #9-3 U.S. Department of Education
CFDA #84.048 Vocational Education - Basic Grants to States

Criteria: OMB Circular A-133, Subpart D, Section 400, establishes requirements for monitoring federal funds subgranted.

Condition: The Montana Board of Regents and Office of the Commissioner of Higher Education (office) subgrant federal moneys received under the Vocational Education - Basic Grants to States program to other state agencies, community colleges, tribal colleges, and private nonprofit organizations. To ensure the subrecipients comply with applicable state and federal regulations, the office requires subrecipients that spend more than $300,000 in federal funds from all sources to obtain an audit performed in accordance with the Federal Single Audit Act. When a compliance issue is disclosed in a single audit report, the office is responsible for ensuring the issue is appropriately resolved by the subrecipient. The office has not established procedures to ensure it receives and reviews copies of all audit reports from subrecipients who are required to have an audit.

Questioned Costs: No questioned costs were identified.

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Context: When a subgrant is established, the office provides the subrecipient with a standard letter that explains the federal regulations, including the single audit requirements, with which the subrecipient must comply. Some subrecipients routinely send reports to the office, but office personnel indicated there are no procedures to ensure all required reports are received and reviewed.

Effect: The office did not comply with federal requirements.

Cause: The office experienced turnover during the audit period in the position responsible for obtaining and reviewing subrecipient audit reports.

Recommendation: We recommend the office establish procedures to ensure it receives and reviews all subrecipient audit reports as required by federal regulations.

Finding #9-4 U.S. Department of Education
CFDA #84.032 Student Financial Assistance Cluster

Criteria: 34 CFR 682.410(c) requires the Montana Board of Regents and Office of the Commissioner of Higher Education Guaranteed Student Loan program (program) to conduct comprehensive biennial on-site reviews of certain lenders participating in the Federal Family Education Loan program. These regulations require the program to review lenders whose dollar volume of loans made or held and guaranteed by the program in the preceding year (a) equaled or exceeded two percent of the total of all loans guaranteed by the program that year, (b) was one of the ten largest lenders whose loans were guaranteed by the program that year, or (c) equaled or exceeded $10 million.

Condition: Program personnel told us they consistently review the same four lenders and one loan servicing organization (which serves six other high-volume lenders) because these lenders have consistently met the federal criteria for review in the past. They accumulate monthly loan volume information by lender and loan type into a spreadsheet for each federal fiscal year. However, they do not review the spreadsheet to make sure they are reviewing all the lenders that meet the federal criteria for review. These procedures do not ensure all lenders meeting the federal criteria are reviewed when there are significant changes in loan volume, as there were for federal fiscal year 1999. The program also did not conduct lender reviews biennially as required by federal regulations.

Questioned Costs: No questioned costs were identified.

Context: Program personnel performed three lender reviews between July 28, 1998, and July 26, 1999. These three lenders had been reviewed between three to five years earlier. The program's second largest lender, with 20 percent of loan volume in federal fiscal year 1998, was last reviewed in November 1993. The loan servicing organization was last reviewed in April 1995.

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Effect: The program could comply with federal regulations by determining which lenders meet federal criteria for review based on their annual volume spreadsheets and performing lender reviews biennially.

Cause: Program personnel said they recognized they lacked the staff resources to perform timely lender reviews and attempted to contract with an outside source for the reviews. They said they negotiated for several months but could not come to an agreement with the outside source for performing the reviews, so program staff are performing reviews as time allows.

Recommendation: We recommend the office perform biennial reviews of lenders meeting federal criteria as required by federal regulations for the Federal Family Education Loan program.

Finding #9-5 U.S. Department of Education
CFDA #84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States
U.S. Department of Agriculture
CFDA #10.551 & 10.561 Food Stamp Cluster
CFDA #10.557 Special Supplemental Nutrition Program for WIC
CFDA #10.558 Child and Adult Care Food Program
CFDA #10.567 Food Distribution Program on Indian Reservations
U.S. Department of Health and Human Services
CFDA #93.044 & 93.045 Aging Cluster
CFDA #93.558 Temporary Assistance for Needy Family Program
CFDA #93.563 Child Support Enforcement - Title IV-D
CFDA #93.568 Low Income Home Energy Assistance
CFDA #93.575 & 93.596 Child Care Cluster
CFDA #93.658 Foster Care - Title IV-E
CFDA #93.667 Social Service Block Grant
CFDA #93.775, 93.777, & 93.778 Medicaid Cluster
CFDA #93.959 Block Grants-Prevention and Treatment of Substance Abuse
CFDA #93.994 Maternal and Child Health Services Block Grant to States
U.S. Department of Social Security Administration
CFDA #96.001 Social Security - Disability Insurance

See Schedule of Findings and Questioned Costs, Section III – Federal Award Findings and Questioned Costs, finding #2-1.

Finding #9-6 U.S. Department of Education
CFDA #84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States
U.S. Department of Health and Human Services
CFDA #93.044 & 93.045 Aging Cluster
CFDA #93.558 Temporary Assistance for Needy Family Program

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CFDA #93.959 Block Grants-Prevention and Treatment of Substance Abuse
CFDA #93.563 Child Support Enforcement
CFDA #93.667 Social Services Block Grant
CFDA #93.994 Maternal and Child Health Service Block Grant to States

Criteria: Reporting requirements are a general requirement of almost every federal program at the Montana Department of Public Health and Human Services (department). Virtually every federal agency, in the individual program regulations, establishes guidelines and prescribed formats for the department to follow in reporting the financial activity and the results or accomplishments for the various programs (i.e. Rehabilitation Act of 1973, 45 CFR 92.41 and 96.17, OCSE 396 A Report Requirements).

Federal regulations frequently mandate recipients of federal awards maintain a specified level of effort for a specific program from period to period. The specific requirements are unique to each program and are found in the applicable federal program laws and regulations (i.e. Rehabilitation Act of 1973, 45 CFR 96.134, 42 U.S.C. Section 705(a)(4)).

Condition: As part of our audit we tested to determine whether the department was in compliance with the applicable reporting requirements. We noted several instances where the department was not in compliance with federal reporting requirements for the following programs. We also tested compliance with applicable level of effort requirements and our testing disclosed the following concerns regarding department procedures.

Rehabilitation Services - Vocational Rehabilitation Grants to States
We noted errors or lack of supporting documentation in Vocational Rehabilitation reports submitted to the federal government.

Aging Cluster
The Federal Cash Transaction Report - PMS-272 for the quarter ended March 1999 is overstated by a total of $600,000 for programs within the Aging Services program. The primary accounting records reflect the actual expenditures for the "99 Age Supp" program and for the "99 Congr" program were each $300,000 less than the amounts reported to the federal government. We also noted a $900 error on the March 1999 Financial Status Report.

Temporary Assistance for Needy Family Program
We noted three instances of incorrect amounts reported on ACF-196 Financial Reports submitted to the federal government. The amounts reported to the federal government did not agree to the primary accounting records.

Child Support Enforcement - Title IV-D
The amounts reported on the quarterly Child Support Enforcement reports (OCSE 396A) are not reconciled to the primary accounting records. The amounts on the OCSE 396A reports are used to

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determine and support cash draws as reported on the Federal Cash Transaction Report (SF-272). Errors on the OCSE 396A reports result in errors in the cash draw calculations.

Social Services Block Grant
The post expenditures report for the Social Services Block Grant for fiscal year 1996-97 was not submitted within the federally established time frames. The federal report for the state fiscal year ended June 30, 1997, was not submitted until March 1998.

Block Grants - Prevention and Treatment of Substance Abuse
Department personnel stated they purposely report fewer expenditures for the Substance Abuse Prevention and Treatment Block Grant (SAPT) level of effort than those actually incurred. The department should report the aggregate state expenditure for level of effort for the SAPT program.

Maternal and Child Health Service Block Grant to States
The federal reports are not supported by the primary accounting records. We noted the amounts are unsupported, unreconciled and inconsistent between years. The department uses spreadsheets and the Agency Wide Accounting and Client System (AWACS) to determine the amounts to include on the expenditure reports. However, the supporting documentation is inconsistent with the reported amounts and some amounts could not be agreed to the spreadsheets.

The department disburses funds to Montana counties to provide program services. The AWACS system records and tracks the amounts the department pays to the counties. The amount of total county expenditures is not treated or reported consistently between award years. For federal award year 1997, the department reported only the amount of county expenditures from the AWACS system necessary to meet the required match amount for the grant. The calculation was done in total, no allocation or documentation was done at the individual county level. In federal award year 1998, the department reported total county payments from the AWACS system.

The department under-reported its level of effort for the 1997 grant by $244,576 and under reported the 1998 grant level of effort by $531,350. The amount reported was less than total expenditures incurred, but sufficient to meet the required level of effort. In addition, department documentation does not agree to the primary accounting records.

Questioned Costs: No questioned costs were identified.

Context: The number of federal programs where our audit detected noncompliance with the various reporting requirements indicates a systemic compliance control weakness. The department should take steps to ensure federal reports are supported by the primary accounting records. This should include redesign or implementation of reconciliation procedures between the primary accounting records, the various systems used by the department, and supporting spreadsheets used by department personnel. The department should provide additional training for personnel to understand the federal reporting requirements, the relationships between department records and systems and the extent of

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documentation required for federal reporting. The department should also enhance supervisory review procedures to ensure compliance with department policies.

Effect:

Rehabilitation Services - Vocational Rehabilitation Grants to States

The 1998 RSA-2 costs claimed are overstated by $12,039. Costs are understated on the federal fiscal year 1998 SF-269 report for the quarter ended March 1999 by a net $3,711. The net understatement is the result of two errors. Costs in one section of the supporting documentation are understated by $50,895 and in another section are overstated by $47,184. The applicable state and federal shares of the net understatement consist of $2,920 federal and $791 state. Total costs are understated by $83,393 on the federal fiscal year 1999 FSR-269 report for the quarter ended March 1999. This consists of an understatement of federal and state shares of $65,630 and $17,763 respectively.

Temporary Assistance for Needy Family Program

Two errors occurred on the March 1999 ACF-196 Financial Report. The reported federal expenditures for "cash and work based assistance" were understated by $462,821 and the state expenditures for this item were overstated by $464,406.

The ACF-196 report for the quarter ended June 1999 reported $5,657,699 of "Transferred to CCDF Discretionary" - Federal Awards & Transfers. Of this amount, $3.5 million did not occur until August 11, 1999, after the quarter ended. The correct amount, as of June 1999, was $2,157,669.

Child Support Enforcement - Title IV-D

We reviewed the OCSE 396A reports for the quarters ended December 1997 and June 1998. We noted the following differences between the quarterly report amounts and the primary accounting records for the federal share of expenditures.

Reported / Recorded	December 1997	June 1998
OCSE 396A Report	$2,041,594	$2,303,060
Accounting Records	1,819,364	2,490,902
Difference	$ 222,230	$ (187,842)

We noted a formula error in the supporting spreadsheet for the OCSE 396A report for the quarter ended June 1999. The formula error resulted in a $13,136 error on the quarterly report. We also noted a transposition error which resulted in a $90 error.

Social Services Block Grant

The federal report for the state fiscal year ended June 30, 1997, was not submitted until March 1998.

Block Grants - Prevention and Treatment of Substance Abuse

The department under-reported the state contribution to these programs. Under-reporting current state contributions could mask a declining state commitment.

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Maternal and Child Health Service Block Grant to States
The amounts did not agree to the federal reports in all cases as illustrated below.

Maternal and Child Health Service Block Grant Comparison of Expenditures Reported to the Federal Government to Supporting Documentation for the 1998 Award Year

Program Component	Amount Reported	Support Spreadsheet
Health Stats	$ 24,746	$ 24,746
FCH Bureau Admin	399,055	399,047
Women's Health	35,394	35,394
CAC	121,474	121,131
Special Health Services	823,296	865,433
Contracts to Counties	857,236	823,279
School & Dental	53,067	53,067
TOTAL	$2,314,268	$2,322,097

Source: Compiled by Legislative Audit Division from department records.

The department under-reported its level of effort for the 1997 grant by $244,576 and under reported the 1998 grant level of effort by $531,350.

Cause:
Rehabilitation Services - Vocational Rehabilitation Grants to States
The individual responsible for preparing the SF-269 reports was in a training position at that time and should have been more closely supervised.

Aging Cluster
Department personnel stated the department had $600,000 of excess federal cash on hand as of March 1, 1999, and reported this money as expended to avoid reflecting it as excess cash on the PMS-272 report. Personnel anticipated spending the amounts shortly after March 1999 and so prepared the report to reflect the amounts as spent. Department personnel had noted the $900 difference between the primary accounting records and the supporting report information but overlooked making the adjustment when submitting the federal report.

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Temporary Assistance for Needy Family Program
The errors on the March 1999 ACF-196 report occurred because the department had not met its maintenance of effort and so reclassified expenditures for reporting purposes. The accounting records were not adjusted until September 1999, after the department made its final maintenance of effort decisions. Because the federal (ACF-196) report for the June 1999 quarter was not prepared until August 13, 1999, department personnel did not detect the timing difference and reported total transfers without considering the reporting period.

Child Support Enforcement - Title IV-D
These differences occur because personnel prepare the quarterly reports using a spreadsheet which is based on total expenditures rather than on the allocation of state and federal expenditures as recorded in the accounting records.

Social Services Block Grant
Department personnel stated staff turnover and other priorities may have delayed the report submission. They stated the former employee who prepared the report thought there was more flexibility regarding the timing requirements for submitting the report.

Block Grants - Prevention and Treatment of Substance Abuse
The intentional under-reporting of SAPT expenditures was done because personnel had not read the current federal regulations and relied on past experience with other federal block grants.

Maternal and Child Health Service Block Grant to States
We requested department personnel provide the supporting documentation for the 1998 award year expenditure report. Department personnel were unable to locate the original supporting documentation and attempted, but were unable, to recreate the support.

When questioned how they determined the amounts to be reported for its level of effort, department personnel were unable to recompute or document the amounts.

Recommendation: We recommend the department develop and implement procedures to improve compliance with federal program reporting requirements.

This finding is also reported under a separate federal agency in finding #10-7 in the Schedule of Findings and Questioned Costs, Section III – Federal Award Findings and Questioned Costs.

Finding #9-7 U.S. Department of Education
CFDA #84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States
U.S. Department of Health and Human Services
CFDA #93.044 & 93.045 Aging Cluster
CFDA #93.558 Temporary Assistance for Needy Family Program
CFDA #93.563 Child Support Enforcement - Title IV-D

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CFDA #93.658 Foster Care - Title IV-E
CFDA #93.775, 93.777, & 93.778 Medicaid Cluster

Criteria: 45 CFR 95.621(f) require the Montana Department of Public Health and Human Services (department) establish procedures for review and analysis of data processing and system security issues for systems used to administer U.S. Department of Health and Human Services programs. These regulations include directives regarding risk analyses to ensure both new and existing systems include appropriate, cost-effective controls. The department is required to perform risk analyses whenever significant system changes occur and to review system security installations on a biennial basis. At a minimum, the reviews are to address evaluation of physical and data security operating procedures, and personnel practices. The department is to maintain reports on the biennial reviews, together with pertinent supporting documentation, for U.S. Department of Health and Human Services onsite reviews.

Condition: The automated data processing systems which impact the above programs are TEAMS, SEARCHS, CAPS, AWACS, SBAS/SABHRS (the state's accounting system), and MMIS. Department management was unaware of this requirement and therefore, has not established the required system of review and risk analysis. Although the department is engaged in certain activities which could be used as a starting point for the required review, the department should develop a review plan and document the results of the review in accordance with federal regulations.

Questioned Costs: No questioned costs were identified.

Context: OMB Circular A-133 Compliance Supplement identifies this regulation as a special test and provision for the Medicaid Cluster. Total expenditures for the Medicaid Cluster on the fiscal years 1997-98 and 1998-99 Schedules of Expenditures of Federal Awards were $296.7 million and $309.8 million, respectively.

Effect: The department is not in compliance with federal regulations for review and analysis of data processing and system security issues for systems.

Cause: Department management was unaware of this requirement and therefore, has not established the required system of review and risk analysis.

Recommendation: We recommend the department comply with the requirement of 45 CFR part 95, subpart F, and implement a comprehensive risk analysis and system security review plan.

This finding is also reported under a separate federal agency in finding #10-12 in the Schedule of Findings and Questioned Costs, Section III – Federal Award Findings and Questioned Costs.

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Finding #9-8 U.S. Department of Education
CFDA #84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States

Criteria: 45 CFR 92.20 requires the state expend and account for grants funds in accordance with state laws and procedures for expending and accounting for its own funds. Section 17-1-102(4), MCA, states in part, that all state agencies shall input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles.

See Schedule of Findings and Questioned Costs, Section II – Financial Statement Findings, finding #1-2.

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Finding #10-1 U.S. Department of Health and Human Services
CFDA #93.044 & 93.045 Aging Cluster
CFDA #93.658 Foster Care - Title IV-E

Criteria: Industry standards suggest management limit access to production programs and data to individuals who need it to perform their jobs.

Condition: During a prior audit of the Montana Department of Public Health and Human Services (department), we determined all programmers assigned to the Child and Protective Services (CAPS) development project had unlogged write access to production programs and data. We recommended the department restrict this access.

The department has developed a shared user identification and password system which allows only one programmer to access the CAPS production files at a time. The department believes the access is necessary to facilitate problem resolution. Programmers control a manual log to document any change to production information. However, the department is unable to determine accountability if the programmer fails to record a change in the log. In addition, the shared password is printed on each page of the manual log, mitigating the effectiveness of the control.

CAPS contains data that is highly sensitive, such as foster children's names and personal background information. The log shows that programmers have the ability to make changes to this confidential protective services data. Examples of logged entries include:

> ". . . added a worker approval with ****'s ID on it. The payment only had a central office approval, so the payment looked funny when it displayed . . ."
>
> "Updated SBAS (Statewide Budget and Accounting System) document ******* so that it matched SBAS."

Questioned Costs: No questioned costs were identified.

Context: The department should fully implement the prior audit recommendation by limiting programmer access to the test environment or, at a minimum, ensure individual programmer accountability when accessing production data. The department should also ensure the password remains private and not display it on the log.

Effect: The current type of write access could allow programmers to make undocumented changes to transaction files and programs. The department is unable to determine accountability if the programmer fails to record the change in the log.

Cause: The department believes the access is necessary to facilitate problem resolution.

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Recommendation: We recommend the department restrict access to CAPS production programs and data according to programmer job functions.

Finding #10-2 U.S. Department of Health and Human Services
CFDA #93.044 & 93.045 Aging Cluster
CFDA #93.658 Foster Care - Title IV-E

Criteria: Industry guidelines suggest management implement procedures to identify and correct processing errors. Although CAPS produces a report of suspended transactions, we found the department has not corrected the transactions.

Condition: Transactions which do not pass system edits must be corrected and resubmitted for processing before CAPS will authorize payment to the service provider. During a prior audit we found that in some cases the Montana Department of Public Health and Human Services (department) bypassed CAPS and issued warrants directly through the Statewide Budgeting and Accounting System (SBAS) in order to pay providers. Because the errors have not been corrected, CAPS does not report all service provider activity.

The department redesigned the error exception report, and prioritized the review and correction of CAPS processing errors. However, CAPS has not been updated to record direct payments made on SBAS. Therefore, CAPS still does not report all service provider activity.

Questioned Costs: No questioned costs were identified.

Context: The department could not provide an estimate of the total number of suspended transactions.

Effect: CAPS still does not report all service provider activity.

Cause: The department has submitted a request to correct this, but other system modifications have been given a higher priority.

Recommendation: We recommend the department update CAPS to include all service provider payment activity.

Finding #10-3 U.S. Department of Health and Human Services
CFDA #93.044 & 93.045 Aging Cluster
CFDA #93.658 Foster Care - Title IV-E

Criteria: Industry guidelines suggest management ensure computer applications have an adequate audit trail of transactions.

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Condition: Due to changes in client eligibility, financial specialists can request central office employees to adjust previously processed CAPS transactions. Adjustments include changing the funding source for services charged. However, the prior audit found cases where CAPS automatically reversed the central office adjustments rather than recognizing they were reasonable, given online supporting documentation. As a result, we recommended the Montana Department of Public Health and Human Services (department) correct CAPS program logic to ensure accurate funding sources are processed.

Questioned Costs: No questioned costs were identified.

Context: The department has developed an automated process to alert the social worker when CAPS automatically reverses central office adjustments. Currently, financial specialists manually review each transaction and verify that the funding source is reasonable.

Effect: CAPS automatically reverses the central office adjustments without recognizing whether they are reasonable.

Cause: The department has requested the contractor address this recommendation, but the program logic change has not been made.

Recommendation: We recommend the department correct CAPS program logic to ensure accurate funding sources are processed.

Finding #10-4 U.S. Department of Health and Human Services
CFDA #93.044 & 93.045 Aging Cluster
CFDA #93.558 Temporary Assistance for Needy Family Program
CFDA #93.563 Child Support Enforcement - Title IV-D
CFDA #93.568 Low Income Home Energy Assistance
CFDA #93.575 & 93.596 Child Care Cluster
CFDA #93.658 Foster Care - Title IV-E
CFDA #93.667 Social Service Block Grant
CFDA #93.775, 93.777, & 93.778 Medicaid Cluster
CFDA #93.959 Block Grants-Prevention and Treatment of Substance Abuse
CFDA #93.994 Maternal and Child Health Services Block Grant to States
U.S. Department of Agriculture
CFDA #10.551 & 10.561 Food Stamp Cluster
CFDA #10.557 Special Supplemental Nutrition Program for WIC
CFDA #10.558 Child and Adult Care Food Program
CFDA #10.567 Food Distribution Program on Indian Reservations
U.S. Department of Education
CFDA #84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States

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U.S. Department of Social Security Administration
CFDA #96.001 Social Security - Disability Insurance

See Schedule of Findings and Questioned Costs, Section III - Federal Award Findings and Questioned Costs, finding #2-1.

Finding #10-5 U.S. Department of Health and Human Services
CFDA #93.775, 93.777, & 93.778 Medicaid Cluster

Criteria: 42 CFR 433.139(b)(3) requires the state have a system to identify medical services that are the legal obligation of third parties. Third party resources should be exhausted prior to paying claims with Medicaid funds. OMB Circular A-133 Compliance Supplement, Medicaid Cluster 4-93.778, requires the state establish procedures to prevent duplicate payments.

Condition: The Montana Department of Public Health and Human Services (department) administers the Medicaid Program. Under the state plan, the department responsibilities include the review, approval, and processing of Medicaid claims submitted by the Indian Health Service agencies. We tested a sample of claims submitted by the Indian Health Services and noted the following instances of noncompliance with federal requirements.

One individual was eligible for medical coverage by a third party. The claim was approved and paid by the department. No reimbursement was requested from the third party.

Five claims for out-patient services had a letter attached from the Indian Health Service Agency noting the agency had detected duplicate billings for a total of $50,648 and requesting the department to correct the situation by reducing the amount of payment on subsequent claims. The department had approved the duplicate billings for payment because personnel were unaware the claims had already been paid.

Questioned Costs: We question $1,444,136 of expenditures charged to Medicaid.

Context: The department should perform verification procedures to ensure claims paid during the period July 1, 1997, through December 31, 1997, were allowable under federal regulations.

Effect: The department has no assurance it paid claims on behalf of Medicaid eligible individuals.

Cause: Department personnel stated they paid invoices submitted by the Indian Health Service agencies without any verification during the period July 1, 1997, through December 1997. The Indian Health Service Claims were processed outside of the regular department control system for Medicaid claims. Department personnel stated during this period there was no system to detect or track third party liability cases for Indian Health Service claims.

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Personnel stated they relied on the Indian Health Service agencies to detect and notify the department of any duplicate billings or payments. The control system in place over Indian Health Service claims from July 1, 1997, through December 1997, was inadequate to ensure compliance with federal requirements.

During the remainder of the audit period, the department worked to implement a control system for Indian Health Service claims. Department personnel explained that after December 1997, they began verification procedures for Indian Health Service claims. In January 1998 the department notified the federal Health Care Financing Administration (HCFA) it was considering modification of its Medicaid Management Information System (MMIS) to include processing of Indian Health Service claims. In October 1998 the consulting firm which manages MMIS for the department notified the department of proposed enhancements to MMIS. The enhancements were completed and, according to department personnel, Indian Health Service claims processing was included in MMIS processing effective February 1, 1999.

Recommendation: We recommend the department:

A. Verify and document the allowability of Indian Health Service claims processed between July 1, 1997 and December 31, 1997, in accordance with federal regulations.
B. Refund the amounts paid for unallowable or undocumented Indian Health Service claims to the Medical Assistance Program.

Finding #10-6 U.S. Department of Health and Human Services
CFDA #93.775, 93.777, & 93.778 Medicaid Cluster

Criteria: 42 CFR 447.45(d)(1)(4) require submission of all claims no later than 12 months from date of service.

Condition: During our audit of Medicaid claims for Indian Health Services, we noted the Montana Department of Public Health and Human Services (department) was negotiating a contract with an Indian Health Services provider to provide medical services and supplies for Medicaid eligible individuals. The term of the contract was from October 1, 1997, through June 30, 1999. However, the contract was delayed and not approved by the department until March 1999. The contractor did not agree to the contract until April 1999. In June 1999, the department submitted an amendment to the contractor to extend the term of the contract through June 30, 2000. The amendment also updated billing rates and specifically addressed prescription drug refills and vaccines. The wording of the contract amendment specified that prescription drug refills, administration of vaccine for child immunizations or other services provided on or after October 1, 1997, would be eligible for reimbursement under the contract.

Questioned Costs: No questioned costs were identified.

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Context: Any claims submitted for services provided between October 1, 1997, through June 30, 1998, are unallowable costs to Medicaid because of the 12-month limitation for submission of claims.

Effect: The Indian Health Service agency had not, as of June 30, 1999, submitted any claims for services provided between October 1, 1997 and June 30, 1999. As noted above, the contract provides for reimbursement of any services on or after October 1997. However, this contract provision does not comply with federal regulations and the department is at increased risk of incurring unallowable costs.

Cause: Delays in contract negotiations resulted in extension of the contract term.

Recommendation: We recommend the department:

A. Modify the contract with the Indian Health Service agency to clarify each claim must be submitted within 12 months of its date of service.
B. Ensure any claims submitted for services provided by the contractor prior to July 1998 are not reimbursed with federal funds.

Finding #10-7 U.S. Department of Health and Human Services
CFDA #93.044 & 93.045 Aging Cluster
CFDA #93.558 Temporary Assistance for Needy Family Program
CFDA #93.959 Block Grants-Prevention and Treatment of Substance Abuse
CFDA #93.563 Child Support Enforcement – Title IV-D
CFDA #93.667 Social Services Block Grant
CFDA #93.994 Maternal and Child Health Service Block Grant to States
U.S. Department of Education
CFDA #84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States

See Schedule of Findings and Questioned Costs, Section III – Federal Award Findings and Questioned Costs, finding #9-6.

Finding #10-8 U.S. Department of Health and Human Services
CFDA #93.558 Temporary Assistance for Needy Family Program
CFDA #93.563 Child Support Enforcement - Title IV-D
CFDA #93.575 & 93.596 Child Care Cluster
CFDA #93.658 Foster Care - Title IV-E
CFDA #93.667 Social Services Block Grant
U.S. Department of Agriculture
CFDA #10.557 Special Supplemental Nutrition Program for WIC

See Schedule of Findings and Questioned Costs, Section III – Federal Award Findings and Questioned Costs, finding #2-2.

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Finding #10-9 U.S. Department of Health and Human Services
CFDA #93.775, 93.777, & 93.778 Medicaid Cluster

Criteria: 42 CFR 433.15 provides for payments to states, on the basis of specified percentages, for part of their expenditures for administration of an approved state plan. Section 17-1-102(4), MCA, states in part, that all state agencies shall input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles.

Condition: The Montana Department of Public Health and Human Services (department) is required to pay part of the Medicaid costs. Different state share rates apply to the various program components and the rates can change from one federal fiscal year to the next. The department imbeds the Federal Medical Assistance Percentage (FMAP) rates in the accounting system as a control procedure to ensure expenditures are properly allocated between state and federal sources. The FMAP rates are set by the Health Care Financing Authority and are effective each October 1. The state fiscal year begins on July 1 and therefore, includes portions of two federal fiscal years. With the different Medicaid components and multiple federal fiscal periods there could be as many as 1,350 different cost centers in the accounting system. Each center's coding has an imbedded FMAP rate.

Questioned Costs: We question $289,889 of Medicaid costs processed during July, August, and September 1998.

Context: We tested 38 of these cost centers and found 18 in which expenditures were allocated at the wrong FMAP rate.

Effect: The centers were established in the accounting system July 1, 1998, using the federal fiscal year 1999 FMAP rate which was not effective until October 1, 1998. This resulted in expenditures for July, August, and September 1998 being allocated at the 1999 FMAP rate rather than the 1998 FMAP rate. The 1999 rate was slightly higher than the 1998 rate (71.73% vs. 70.56%) and, therefore, the federal share of program costs is overstated by $289,889.

Cause: Department personnel stated these cost centers were initially established in the accounting system with the incorrect FMAP rates. They stated the rates were subsequently corrected in the accounting system; however, the department did not correct the expenditures already allocated at the incorrect rates. The accounting system does not automatically adjust balances for subsequent changes in the allocation rates.

Recommendation: We recommend the department:

A. Review the Medical Assistance Program cost centers to ensure the accounting system applies the correct FMAP rates.

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B. Adjust the accounting records to reflect the use of the proper FMAP rates for the Medical Assistance Program cost centers during fiscal year 1998-99 and refund the necessary amounts to the Medical Assistance Program.

Finding #10-10 U.S. Department of Health and Human Services
CFDA #93.994 Maternal and Child Health Services Block Grant to States
CFDA #93.667 Social Services Block Grant
U.S. Department of Agriculture
CFDA #10.557 Special Supplemental Nutrition Program for WIC

See Schedule of Findings and Questioned Costs, Section III – Federal Award Findings and Questioned Costs, finding #2-3.

Finding #10-11 U.S. Department of Health and Human Services
CFDA #93.558 Temporary Assistance for Needy Family Program

Criteria: 45 CFR 92.20 requires the state to expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Section 17-1-102(4), MCA, states in part, that all state agencies shall input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles.

Condition: In the prior audit of the department we noted an error related to the expenditure activity in the Temporary Assistance to Needy Family (TANF) and Aid to Families with Dependent Children (AFDC) programs.

Questioned Costs: We question the $43,775 charged to the AFDC program.

Context: We identified a programming error within the TEAMS computer system which charged certain AFDC activity to the TANF program. Total expenditures on the fiscal year 1996-97 Schedule of Expenditures of Federal Awards for AFDC were $19.5 million and for TANF were $14.5 million.

Effect: Department personnel determined that there was a net overcharge of $43,775 to AFDC in fiscal year 1996-97, and the TANF program was undercharged by the same amount. Even though the department calculated the error and corrected its system programming, we could find no documentation the department repaid AFDC.

Cause: A programming error within the TEAMS computer system which charged certain AFDC activity to the TANF program.

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Recommendation: We recommend the department repay $43,775 to the Aid to Families with Dependent Children Program.

Finding #10-12 U.S. Department of Health and Human Services
CFDA #93.044 & 93.045 Aging Cluster
CFDA #93.558 Temporary Assistance for Needy Family Program
CFDA #93.563 Child Support Enforcement – Title IV-D
CFDA #93.658 Foster Care -Title IV-E
CFDA #93.775, 93.777, & 93.778 Medicaid Cluster
U.S. Department of Education
CFDA #84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States

See Schedule of Findings and Questioned Costs, Section III – Federal Award Findings and Questioned Costs, finding #9-7.

Finding #10-13 U.S. Department of Health and Human Services
CFDA #93.563 Child Support Enforcement – Title IV-D

Criteria: 45 CFR 74.21 requires financial management systems provide for accurate and complete disclosure of financial results. Section 17-1-102(4), MCA, states in part, that all state agencies shall input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles.

Condition: The Montana Department of Public Health and Human Services (department) Child Support Enforcement Division (CSED) does not properly reconcile computer systems it uses to account for approximately $40,000,000 of child support receipts and disbursements. CSED personnel use three computer systems, SEARCHS, VIPRS, and the statewide accounting system to account for the collection, payment, and/or transfer of funds related to the Child Support Enforcement program. Personnel use the SEARCHS and VIPRS computer systems to monitor and process child support payments and collections through the statewide accounting system. The three systems should be reconciled to ensure accountability and the adequacy of fund assets to cover child support payments due to custodial parents.

Questioned Costs: No questioned costs were identified.

Context: The CSED is responsible for approximately $40 million of child support receipts and disbursements annually. This is the third audit report which has addressed concerns related to the adequacy of the child support reconciliation process.

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Effect: When CSED remits more money to a custodial parent than it should (e.g. an obligated parent does not send the full amount of the support payment to CSED, but CSED remits the full amount to the custodial parent), personnel then establish a receivable in the Child Support agency fund and attempt to collect the money from the custodial parent. Collection efforts are not always successful and some receivables become uncollectible. At the end of fiscal year 1998-99, CSED personnel wrote off more than $132,000 of accounts receivable as uncollectible in the Child Support agency fund. In the same transaction, personnel reduced the liability for property held in trust by the same amount. Reducing property held in trust was inappropriate as the division was still responsible for distributing that amount of cash to the rightful owners. Appropriate reconciliation procedures for the three systems should have identified this error.

Cause: Procedures used are not properly designed to ensure reconciliation between the systems.

Recommendation: We recommend the department implement procedures to ensure the Child Support Enforcement Division computer systems properly reconcile to the statewide accounting system and to each other.

Finding #10-14 U.S. Department of Health and Human Services
CFDA #93.658 Foster Care - Title IV-E

Criteria: 45 CFR 74.21 requires financial management systems provide for accurate and complete disclosure of financial results. Section 17-1-102(4), MCA, states in part, that all state agencies shall input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles.

Condition: Children eligible to receive Foster Care - Title IV-E frequently receive other forms of assistance or support. These receipts are remitted to the Montana Department of Public Health and Human Services (department) and department personnel deposit them in the state treasury, maintaining accountability through the use of an agency fund within the accounting system and a module within CAPS. These moneys are used to help pay for the costs of care related to these children. Each child has a separate account within the CAPS trust account module. Personnel stated they reconcile the total of those accounts to the primary accounting records to ensure proper accountability for funds held in trust.

Questioned Costs: No questioned costs were identified.

Context: We obtained a fiscal year 1998-99 CAPS report which should have been used by personnel to complete trust account reconciliations. We compared the total on this report to the balance in the agency fund on the accounting records. The CAPS report total was $254,177 and the accounting records total was $160,506. Timely reconciliations, properly performed and documented, would have identified this difference and the errors that created it and reduced the risk of the department being

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deficient in its fiduciary duty to the foster care children. The department should complete the reconciliations for fiscal year 1998-99 to ensure the individual foster care trust account balances are proper and the appropriate accountability for property held in trust is reflected in the primary accounting records.

Effect: We reviewed transactions posted to the accounting records and identified two which account for $78,714 of the $93,670 difference. One transaction was for $20,323 and moved funds from the agency fund to the special revenue fund foster care account in January 1998. Personnel responsible for updating the individual foster care trust accounts on CAPS could not provide documentation to verify whether those accounts were ever adjusted for that transaction. The other transaction was in the amount of $58,391 and was a deposit that had been recorded in the general fund rather than the agency fund account on the accounting records.

Cause: At the time of our inquiries, August 1999, personnel stated that although they had completed trust account reconciliations for fiscal year 1997-98, they had not done any reconciliations for fiscal year 1998-99 because they did not have time. Personnel were unable to provide documentation of the fiscal year 1997-98 reconciliations.

Recommendation: We recommend the department implement policies and procedures which will ensure timely completion and resolution of reconciliations between foster care trust accounts and the accounting records.

Finding #10-15 U.S. Department of Health and Human Services
CFDA #93.044 & 93.045 Aging Cluster
CFDA #93.658 Foster Care Title VI-E
CFDA #93.775, 93.777, & 93.778 Medicaid Cluster

Criteria: 42 CFR 433.32, 45 CFR 74.21, & 45 CFR 92.20 requires the state to expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Section 17-1-102(4), MCA, states in part, that all state agencies shall input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles.

See Schedule of Findings and Questioned Costs, Section II – Financial Statement Findings, finding #1-3.

Finding #10-16 U.S. Department of Health and Human Services
CFDA #93.558 Temporary Assistance for Needy Family Program
CFDA #93.775, 93.777, & 93.778 Medicaid Cluster
U.S. Department of Agriculture

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CFDA #10.557 Special Supplemental Nutrition Program for WIC
CFDA #10.567 Food Distribution Program on Indian Reservations

See Schedule of Findings and Questioned Costs, Section III - Federal Award Findings and Questioned Costs, finding #2-5.

Finding #10-17 U.S. Department of Health and Human Services
CFDA #93.775, 93.777, & 93.778 Medicaid Cluster

Criteria: 45 CFR 74.21 requires financial management systems provide for accurate and complete disclosure of financial results. Section 17-6-105, MCA, requires deposits to be made daily when total collections exceed $500. At a minimum, all moneys received are to be deposited weekly.

State policy suggests functional responsibilities of record keeping, authorization, operations and custodianship be separated. Separating these responsibilities provides reasonable assurance the procedures for collections and deposits are properly performed. State policy requires negotiable instruments be restrictively endorsed at the time of initial receipt and that collections be properly secured during both working and nonworking hours to reduce the likelihood of theft or loss.

Condition: We reviewed the department's cash receipting and depositing procedures for receipts related to third party liability recoveries against criteria set forth in state law and state policy.

Personnel working with the department's Third Party Liability (TPL) function do not deposit moneys received as required by state law and policy. Personnel receiving checks through the mail do not secure them at all times. Personnel do not always carry the checks to the fiscal bureau for depositing; the checks are frequently sent to the fiscal bureau through inter-agency mail. For lien and estate recoveries, TPL has contracted with a firm in Boston to initiate actions needed to recover the funds and to follow through with the recoveries. These checks are first sent to a mailbox in Helena and then are forwarded to Boston. When the firm authorizes release of the checks, they are returned to TPL which then deadheads the checks to the fiscal bureau for deposit. This process delays depositing the checks for approximately two weeks. Lien and estate recoveries totaled $1,437,568 during fiscal year 1997-98 and $1,189,560 during fiscal year 1998-99.

Questioned Costs: No questioned costs were identified.

Context: The department has approximately 28 cash collection points throughout the state.

Effect: The delays in depositing the TPL receipts cause a loss of interest earnings to the state and increase the risk of loss or theft.

Cause: The department's cash receipting policies did not include a periodic review of cash receipting procedures performed by bureaus and units outside of the Operation and Technology Division's Fiscal

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Bureau. The TPL cash receipting procedures have evolved over time and personnel have not considered the risk of loss related to unsecured receipts.

The department directed lien and estate recovery payments to a Helena (in-state) mailbox because personnel thought the Montana public would not want to remit these payments to an out-of-state company.

Recommendation: We recommend the department review its cash collection and deposit procedures and implement procedures to ensure timely deposits and safeguarding of assets for third party liability collections.

Finding #10-18 U.S. Department of Health and Human Services
CFDA #93.563 Child Support Enforcement - Title IV-D

Criteria: 45 CFR 302.51 establishes requirements for distribution of support collections.

Condition: We reviewed the Montana Department of Public Health and Human Services' (department) System for Enforcement and Recovery of Child Support (SEARCHS), including table maintenance and algorithm priority lists. Department personnel use SEARCHS to monitor receipt of child support payments. The system uses table maintenance lists to calculate child support payments and priority lists to allocate child support payments received. An absent parent's child support payment first applies to current child support and second to current spousal support. Payment amounts in excess of the current support are applied to lower priorities, e.g. medical.

We identified two table maintenance errors. The Federal Income Tax Withholding (FWT) and Enforcement Fee (EFF) tables do not properly match federal regulations. Child support cases using the FWT table may charge the incorrect withholding tax percentage. The EFF table will charge enforcement fees, contrary to federal regulations, unless a date change is made on the table. We identified 13 priority errors on SEARCHS. These priorities are not set in accordance with federal regulations and do not follow the priority system explained above.

Questioned Costs: No questioned costs were identified.

Context: Child Support payments processed by the department in fiscal years 1997-98 and 1998-99 were $36.7 million and $40.4 million, respectively.

Effect: SEARCHS may allocate child support payments incorrectly. For example, two of the errors involved current spousal support. In these cases, the priority was set at "1" indicating support payments would go to spousal support first. However, spousal support should have a priority of "2," indicating it is the second recipient of support. As a result of the above errors, SEARCHS may calculate child support payments incorrectly.

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Cause: Department personnel did not adequately review the table maintenance and algorithm priority lists. Employee turnover within the Child Support Enforcement Division contributed to the inadequate review.

Recommendation: We recommend the department review SEARCHS table maintenance and priority lists to ensure they comply with federal regulations.

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Finding #11-1 U.S. Department of Social Security Administration
CFDA #96.001 Social Security-Disability Insurance
U.S. Department of Agriculture
CFDA #10.551 & 10.561 Food Stamp Cluster
CFDA #10.557 Special Supplemental Nutrition Program for WIC
CFDA #10.558 Child and Adult Care Food Program
CFDA #10.567 Food Distribution Program on Indian Reservations
U.S. Department of Education
CFDA #84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States
U.S. Department of Health and Human Services
CFDA #93.044 & 93.045 Aging Cluster
CFDA #93.558 Temporary Assistance for Needy Family Program
CFDA #93.563 Child Support Enforcement – Title IV-D
CFDA #93.568 Low Income Home Energy Assistance
CFDA #93.575 & 93.596 Child Care Cluster
CFDA #93.658 Foster Care - Title IV-E
CFDA #93.667 Social Service Block Grant
CFDA #93.775, 93.777, & 93.778 Medicaid Cluster
CFDA #93.959 Block Grants-Prevention and Treatment of Substance Abuse
CFDA #93.994 Maternal and Child Health Services Block Grant to States

See Schedule of Findings and Questioned Costs, Section III – Federal Award Findings and Questioned Costs, finding #2-1.

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Finding #12-1 Various Federal Agencies
CFDA # Various - Research and Development Cluster

Criteria: OMB Circular A-133, Section 400, establishes requirements for monitoring federal funds subgranted.

Condition: During fiscal year 1997-98, the University of Montana at Missoula (university) had 53 subgrants with expenditures totaling $640,000 of federal funds. We noted the university had not established procedures to monitor federal funds subgranted to other entities. Contracts with subgrantees did not consistently indicate the federal catalog program name, CFDA number, or identify the federal audit requirements.

Questioned Costs: No questioned costs were identified.

Context: Total expenditures of federal awards for fiscal year 1997-98 were $25.9 million.

Effect: The department is not in compliance with subrecipient monitoring requirements.

Cause: University personnel drafted procedures for compliance with federal regulations but never implemented them.

Recommendation: We recommend the university develop and implement procedures to monitor subrecipients of federal awards in accordance with the Single Audit Act Amendments of 1996 and the Office of Management and Budget Circular A-133.

Finding #12-2 Various Federal Agencies
CFDA # Various

Criteria: Section 17-8-101(6), MCA, states fees and charges for services deposited in the internal service fund type must be based upon commensurate costs. OMB Circular A-87, Attachment A, Part C, Basic Guidelines, Subpart 3, Allocable Costs, Section C: "Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons."

Condition: During the course of Montana Department of Administration (department) audit, we identified $793,181 of revenue which, under the department's Information Services Division's (ISD) existing rate structure, should have been collected from the Montana Department of Public Health and Human Services (DPHHS), but was not.

Questioned Costs: We anticipate likely questioned costs are greater than $10,000 to various major federal programs.

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Context: Cost shifting could lead to questioned costs for programs which use ISD's services and are funded with federal money. We calculated the effective discount resulting from the cap to be 24.72 percent and 35.05 percent in fiscal years 1997-98 and 1998-99, respectively. Therefore, we question these percentages of costs paid for these data processing services from all federal sources in fiscal years 1997-98 and 1998-99.

Effect: By capping payments from certain programs and providing additional services to them, the costs associated with the additional services are shifted to other programs. ISD management said the costs were absorbed in a reduction of working capital and did not result in an overall rate increase. However, an ISD official said the department may have to raise rates in future periods if similar payment caps are legislated.

The spending limits set in appropriation law cannot amend the substantive law requirement that fees be commensurate with costs. Since the limits on payments for data processing services violate state statute, ISD should bill for the services provided.

Cause: According to ISD personnel, appropriation bill language required DPHHS to pay a fixed amount for processing services related to three information systems. DPHHS did not pay for services associated with these programs in excess of the amounts stated in the appropriation language.

Recommendation: We recommend the department bill and collect all service costs at established rates in compliance with state law.

Finding #12-3 Various Federal Agencies
CFDA # Various - Research and Development Cluster

Criteria: OMB Circular A-110, Section 21, requires the Montana State University (MSU-Bozeman) to operate accounting systems which accurately accumulate and support costs charged to federal grants. Federal regulations require federal financial reports and claims for advances and reimbursements contain information that is supported by the books and records from which the basic financial statements have been prepared.

Condition: The detailed financial information for grants and contracts at MSU-Bozeman was recorded on its Financial Reporting System (FRS) during the two years ended June 30, 1999. The MSU-Bozeman Grants and Contracts Office prepares federal financial reports and the Schedule of Expenditures of Federal Awards using FRS detail information. The FRS data was summarized and recorded on the Statewide Budgeting and Accounting System (SBAS). MSU-Bozeman Controller's Office personnel complete a reconciliation of the FRS summary information and SBAS at fiscal year-end and make adjustments, if necessary, to the appropriate system. During the audit, we noted the detail and summary information did not agree at fiscal year-end 1997-98 and 1998-99 by a net amount of $26,228 and $80,499, respectively. In our previous audit, we also noted differences between the

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two systems which MSU-Bozeman personnel were unable to explain. We recommended the university complete a reconciliation at fiscal year-end between the detail and summary information.

Questioned Costs: No questioned costs were identified.

Context: MSU-Bozeman Grants and Contracts Office recorded the following SEFA amounts for Research and Development projects: fiscal year 1999, $29.5 million, fiscal year 1998 $27.7 million. Grants and Contracts Office personnel complete daily reconciliations of the detail and summary information. However, a reconciliation is not completed at fiscal year-end. Since payments are made from the state's accounting records, it is important the detail financial information can be reconciled with the state's accounting records. MSU-Bozeman personnel should identify reconciling items at fiscal year-end and ensure any errors are corrected.

Effect: When university grant reports and charges are not supported by or reconcilable to the university's underlying accounting records, the reports may not be correct and the university is not in compliance with federal regulations.

Cause: MSU-Bozeman personnel stated there was confusion concerning who should be completing the year-end reconciliation.

Recommendation: We recommend the university complete a reconciliation of detail and summary information at fiscal year-end and resolve any differences between its grants system at MSU-Bozeman and the state's records on a timely basis.

Finding #12-4 Various Federal Agencies
CFDA # Various - Research and Development Cluster

Criteria: OMB Circular A-110, Section 34, and OMB Circular A-133 Compliance Supplement Equipment establishes requirements related to disposal of assets.

OMB Circular A-21 allows institutions receiving federal grants to recover vehicle costs by computing depreciation or a use allowance. The regulations require depreciation to be based on the useful life of the vehicle and reflect the pattern of consumption of the asset.

OMB Circular A-21, Section J 8(b)(2), requires a payroll distribution system be incorporated into the official records of the institution and reasonably reflect the activity for which the employees are compensated by the institution. The regulations require the method used recognize the principle of after-the-fact confirmation of time and effort spent on a grant so that costs distributed represent actual costs.

Condition: Montana State University-Bozeman (MSU-Bozeman) purchases various equipment with federal grant funds. Any equipment purchased for more than $1,000 is included on the property

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records. When the equipment is no longer needed, it is sold, replaced, or used in other activities. Federal requirements cover disposal of assets with current fair market value greater than $5,000. If the item is sold, the federal agency that provided the funds to purchase the property is entitled to a portion of the proceeds. The agency should be compensated based on the percent of funding provided when the property was purchased. The equipment may be traded in or sold with the proceeds used to offset the price of the replacement equipment if approval of the federal awarding agency is obtained. When the intent is to dispose of the property, the recipient should request disposition instructions from the federal awarding agency. If the recipient wants to retain the equipment for other uses, they may do so as long as they provide compensation to the original federal agency. The property management officer at MSU-Bozeman disposes of all property in the same manner regardless of whether it was purchased with state, federal, or private funds.

MSU-Bozeman includes an inflation factor in its motor pool rate to cover costs of purchasing replacement vehicles for its fleet. In this way, the university recovers the increase in the cost of a new vehicle over the period of use of the old one, which is prior to the time the vehicle is used.

MSU-Northern has not implemented a system to allocate personal services costs to federal programs based on time and effort expended on the programs. These costs are allocated based on the amounts budgeted for each program.

Questioned Costs: No questioned costs were identified.

Context: The total acquisition value of equipment as of May 1999 is $17,273,303.

Our analysis indicated depreciation would be a more consistent method of recovering costs, since it is based on the actual cars in the fleet rather than the budgeted number of vehicles to be replaced. As long as vehicle replacement occurs on a regular basis, effect is minimal.

MSU-Northern incurred $839,649 in payroll costs on grants other than financial aid in fiscal year 1998-99.

Effect: If MSU-Bozeman disposed of equipment purchased with federal funds having a fair market value greater than $5,000, no portion of the proceeds was returned to the federal awarding agency.

The method used to set MSU-Bozeman motor pool rates does not comply with federal regulations or reflect actual costs of motor pool transportation.

Since MSU-Northern payroll charges to grants were based on budgets rather than actual time worked, the reasonableness of the charges could not be verified.

Cause: The MSU-Bozeman property management officer was not aware additional requirements existed when the property was bought with federal funds.

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According to MSU-Bozeman personnel, charging replacement cost keeps rates lower because the university does not have to finance the replacement vehicles.

MSU-Northern payroll system was not set up to capture actual time worked on each grant.

Recommendation: We recommend the university:

A. Ensure the MSU-Bozeman property manager follows requirements related to disposal of assets purchased with federal funds.
B. Use depreciation in calculating MSU-Bozeman motor pool rates as required by federal regulations.
C. Charge payroll costs to grants at MSU-Northern based upon certified time and effort reports.

Corrective Action Plan

Summary Schedule of Prior Audit Findings

Corrective Action Plan

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Finding #	CFDA #	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
Finding # 2-1	Cross-cutting[1]	PHHS created a separate fiscal policy office to focus on the following areas: Responding to legislative audit recommendations; developing and implementing fiscal policies and procedures that provide an appropriate internal control structure for the department; designing and implementing a more effective and appropriate federally approved public health cost allocation plan; and resolving various fiscal issues and concerns including those related to the implementation of the state's new financial and human resource system.	OTD Division Administrator	11/30/99
Finding # 2-2	10.557 93.558 93.563 93.575 93.596 93.658 93.667	PHHS amended previous agreement effective July 1, 1998, and wrote new agreement effective July 1, 1999, to more closely reflect the methods actually used to draw funds for federal programs.	Fiscal Bureau Chief and Staff	06/30/99
Finding # 2-3	10.557 93.994 93.667	PHHS is aware of the subrecipient monitoring requirements of OMB A-133 and requires subrecipients to be subject to federal audit requirements. The Social Services Block Grant subrecipient audit is normally done every two years. Generally the subrecipient contracts with an outside auditor to do the work. There had been some problems that caused a delay in the start of the audit; as a result, the department's Quality Assurance Division audit staff will complete the audit of the two-year period. The department believes that federal resources were expended for allowable costs of services to developmentally disabled individuals. Should the department or federal agency determine that this is not correct, the department will refund to the federal government the amount determined to be unallowable.	Program 10 Fiscal Staff	Audit complete in April 2000
Finding # 2-4	10.567	The warehouse employees obtain a signature from the receiver for each shipment. The warehouse has changed its processes to ensure that the warehouse drivers also sign for each shipment.	IHSB Chief of Commodities Warehouse	02/29/00

[1] Cross-cutting issue pertains to: CFDA #s: 10.551 & 10.561; 10.557, 10.558, 10.567, 84.126, 93.044 & 93.045; 93.558, 93.563, 93.568, 93.575 & 93.596; 93.658, 93.667, 93.775, 93.777, & 93.778; 93.959, 93.994, and 96.001.

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Finding #	CFDA #	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
Finding # 2-5	10.557 10.567 93.558 93.775 93.777 93.778	Programming changes will be made to the SEARCHS system so that the accounting distribution process is corrected. These changes will be made at the same time as other changes are made for system certification purposes. Accounting corrections will be made at fiscal year end.	Child Support Enforcement Division	10/01/00 for programming changes; corrected with accounting documents at fiscal year end.
Finding # 3-1	14.855 14.857	The Department of Commerce will reconcile cash from previous years to current year.	Teri Juneau	06/30/00
Finding # 4-1	15.252	The Department of Environmental Quality (DEQ) has implemented this recommendation of requesting AMLR cash in accordance with the state/federal cash management agreement, as suggested by the Legislative Audit Division staff.	Jerry Smith, Fiscal Mgmt. Bureau Chief	Corrected at time of audit
Finding # 4-2	15.605 15.611	The Department of Fish, Wildlife, and Parks (DFWP) will revise the language of their personal services contract to provide subrecipients with information necessary to identify subgrants that include federal funds and inform them of audit requirements for entities receiving federal awards. DFWP will also follow up on subrecipients' audit recommendations related to funds subgranted and ensure the subrecipient takes adequate and timely corrective action	David Clark-Snustad	06/30/00
Finding # 4-3	15.605 15.611	DFWP has developed a time reporting policy, effective January 2000, which requires all employees to charge actual time worked to their projects. In order to equitably assign paid leave and fringe benefits, the department will assess a payroll additive rate to direct labor dollars on all US Fish & Wildlife grants. This is effective January 1, 2000, retroactively applied.	David Clark-Snustad	03/01/00
Finding # 4-4	15.605 15.611	DFWP will review future expenditures in the Upland Game Bird account to ensure they are recorded in the correct fiscal year.	David Clark-Snustad	06/30/00
Finding # 4-5	15.252 66.458 66.605	DEQ will work with other state agencies, such as DFWP, that have similar concerns to develop a unified approach that can be implemented statewide.	CSD Administrator	FY 2001

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Finding #	CFDA #	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
Finding # 5-1	17.249	Payments for unused leave when an employee retires or terminates employment will be charged indirectly as a general administrative expense, provided any necessary budget adjustment (Proprietary Fund) is approved. Continued use of this payment method will depend on our Federal negotiator's agreement to treat such payments as allowable indirect costs for purposes of establishing future indirect cost rates.	Kathy Fabiano	03/01/00
Finding # 6-1	20.205	The Department of Transportation (MDT) will establish procedures, including the review of subgrantee audit reports and the addition of required language to the grant agreements that ensure all subgrantees are notified of federal requirements and are monitored by the department. The department will also develop a comprehensive list of funds subgranted to other agencies.	Darrell Zook Pat Saindon	06/30/00
Finding # 6-2	20.205	MDT will work with the Department of Administration to develop and implement acceptable CMIA reporting methods.	Darrell Zook	06/30/00
Finding # 7-1	47.076	Cost sharing policies and procedures will be reviewed and clearly communicated to applicable personnel. For the grant in question, as of April 6, 1999, the principal investigator obtained written documentation from the industry partners to support $27,000 in cost sharing. The University of Montana (U of M) will give emphasis to increased and improved training of principal investigators during fall semester 1999 and spring semester 2000. The training program will cover general federal regulations, as well as cost sharing. Specialized training will be developed for departments to address unique regulations or requirements on an as-needed basis.	C. Carlson – Assistant VP for Research	Spring 2000
Finding # 8-2	66.458	DEQ has prepared and submitted all past due Financial Status Reports and will monitor deadlines to ensure timely submission. A list of all financial and operational reports that are due for each division has been created. This list will be utilized to track the timeliness of reports.	Jerry Smith, Fiscal Mgmt. Bureau Chief	Corrected at time of audit
Finding # 9-1	84.027 84.173	Staff in the Division of Special Education have established a policy to maintain "Statement of Assurances, IDEA Part B child count Verification Forms" for a period of five years in accordance with applicable record retention requirements. Child count verification forms will be maintained at the Division of Special Education.	Bob Runkel	04/01/99

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Finding #	CFDA #	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
Finding # 9-2	84.048	Procedures established to monitor clearing pattern. Establish drawdown procedure for exact amount per clearing pattern.	Jacalyn Grenfell	01/20/00
Finding # 9-3	84.048	Implement procedure at per year end closing to document each grantee's notification of OMB A-133 requirement. Establish master checklist for verification or receipt and review of audit reports	Jacalyn Grenfell	03/15/00
Finding # 9-4	84.032	Changes have been implemented. GSL will seek additional FTE to assist with out-of-state lender reviews.	Arlene Hannawalt	03/15/00
Finding # 9-6	84.126 93.044 93.045 93.558 93.959 93.563 93.667 93.994	Problems with federal reports not matching state's accounting system are due to timing differences. PHHS will ensure differences are adequately documented and clearly identified. The implementation of the financial management control structure includes development of written procedures for each report and reconciliation to the state's accounting records; additional training on federal compliance and reporting requirements; and development of adequate review processes.	Fiscal Policy Advisor	10/31/00
Finding # 9-7	84.126 93.004 93.045 93.558 93.563 93.658 93.775 93.777 93.778	PHHS has done extensive work with various federal agencies and the Department of Administration to conduct separate reviews and tests throughout 1999 to assess risk and security as well as Y2K compliance. The department will review the related federal regulation and discuss it with the appropriate federal authorities and develop an action plan for complying with this recommendation.	OTD Internal and External Systems Bureau Chiefs	10/31/00
Finding # 9-8	84.126	PHHS completed the reconciliation of AWACS for fiscal years 1997-98 and 1998-99. The department will not only review the reconciliations and process appropriate correcting transactions, but also will develop written reconciliation procedures for this system and ensure all reconciliations for fiscal year 1999-2000 are completed. A schedule for timely completion of the reconciliation process will be included in the documented procedures.	Supervisor, Systems and Payments Section	FYE 2000

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Finding #	CFDA #	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
Finding # 10-1	93.044 93.045 93.658	Correction implemented – No corrective plan required.	External System Supervisor	05/31/99
Finding # 10-2	93.044 93.045 93.658	PHHS requested a system change, which was reviewed and ranked a number one priority.	External System Supervisor	Unknown
Finding # 10-3	93.044 93.045 93.658	PHHS requested a system change, which was reviewed and ranked a number one priority.	External System Supervisor	Unknown
Finding # 10-5	93.775 93.777 93.778	PHHS has verified all the Indian Health Service invoices submitted between July 1, 1977, and December 31, 1997 and determined that an overpayment of $60,192 had been made.	Program 07 Fiscal Bureau Chief	05/31/00
Finding # 10-6	93.775 93.777 93.778	PHHS modified the contract to clarify the timely filing guidelines. PHHS has not paid any claims to the contractor that exceeded the 365-day timely filing limit.	Program 07 Fiscal Bureau Chief	02/29/00
Finding # 10-9	93.775 93.777 93.778	Although the accounting records reflected the wrong FMAP rates during this time period, the financial reporting staff used the correct rates on reports to the federal agency and in calculating and drawing Medicaid funds. PHHS has corrected the accounting records.	Medicaid Financial Accountant in Fiscal Bureau	Acting System by 02/29//00
Finding # 10-11	93.558	PHHS personnel believe the document to correct this error processed in the state's accounting system in 1997 and consequently, the amount in question was refunded to the federal government by reducing the amount of federal funds drawn at that time for expenditures incurred. The department is researching the issue.	AFDC/TANF Financial Accountant in Fiscal Bureau	04/30/00
Finding # 10-13	93.563	PHHS will develop written reconciliation procedures for each of the three systems. Child Support, by law, must pay out the full amount to the custodial parent within 48 hours of receipt.	Child Support Enforcement Division Fiscal staff	FYE 2000
Finding # 10-14	93.658	PHHS will address this issue by 1) developing written reconciliation procedures for this system; 2) determining what resources are needed to complete the reconciliations for the prior year through the current accounting period; 3) hiring and/or contracting with outside	Supervisor, Systems and Payments	Procedures and backlog - FYE 2000;

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Finding #	CFDA #	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
		personnel to complete these prior year reconciliations; and 4) assigning responsibility to a position, or positions, for completing future reconciliations on a timely basis.	Section	reconciliation by 09/30/00.
Finding # 10-15	93.044 93.045 93.658 93.775 93.777 93.778	PHHS will address this issue by 1) developing written reconciliation procedures for these systems; 2) determining what resources are needed to complete the reconciliations for the prior year through the current accounting period; 3) hiring and/or contracting with outside personnel to complete these prior year reconciliations; and 4) assigning responsibility to a position, or positions, for completing future reconciliations on a timely basis.	Supervisor, Systems and Payments Section	Procedures and backlog - FYE 2000; reconciliation by 09/30/00.
Finding # 10-17	93.775 93.777 93.778	PHHS changed its processes for depositing foster care trust account receipts after the last audit in order to ensure a proper segregation of duties as recommended. The department will review the current process and incorporate additional changes to make it more efficient while maintaining the appropriate internal controls.	Supervisor, Systems and Payments Section	FYE 2000
Finding # 10-18	93.563	The Child Support Enforcement Division has made numerous changes to SEARCHS since its inception in 1993 in order to cope with all the state and federal law changes. The division submitted a problem report to its system contractor to remove the enforcement fee beginning July 1, 1999. The contractor did this by capping the fee at $0.00; the table will be fixed at a later time. The federal income tax withholding table (FWT) incorporates all IRS withholding tables except those with income over $99,999. Currently, the division uses independent software for the guideline calculations when incomes exceed the amounts in the FWT.	Child Support Enforcement Division	Currently handled outside the tables. Tables corrected by 10/31/00
Finding #12-1	Cross-cutting for R&D	University personnel will revise the draft procedures to ensure compliance with the current OMB Circular A-133.	C. Carlson – Assistant VP for Research	03/31/00
Finding # 12-2	Cross-cutting	The Department of Administration will bill and collect all service costs at established rates.	Tony Herbert	05/30/00
Finding # 12-3	Cross-cutting for R&D	MSU-Bozeman is currently completing the reconciliation between the detail and summary information for FY99 to load the balances into our new financial system. The new system does not have grant information as a subset of the general ledger so the reconciliation will not be necessary in the future.	Dianna Wojtowicz	03/31/00

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1999

Finding #	CFDA #	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
Finding # 12-4	Cross-cutting for R&D	MSU-Northern has systems that capture actual time worked on grants for hourly employees and temporary positions. Certified time and effort reports are received for all employees who are salaried and funded by multiple sources that include grants. In February 2000 a tracking system was developed to identify salaried grant positions to ensure all time and effort certifications are documented, including those positions 100% grant funded.	Jody Hellegaard	02/29/00

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30,1999

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
Various	R & D Cluster	11-1	Inaccurate federal reporting	N/A	2	96-97	Daily reconciliations are performed & documented
Various	R & D Cluster	11-2	Incorrectly reporting time & effort	N/A	1	96-97	
Various	Various	12-1	Noncompliance with Cash Management Improvement Act (CMIA)	N/A	1	96-97	
Various	Various	13-13	Inadequate procedures to identify debarred & suspended contractors	N/A	1	96-97	
	U. S. DEPARTMENT OF AGRICULTURE						
10.551	Food Stamps	13-2	Improper expenditure accruals	N/A	1	96-97	
10.551	Food Stamps	13-10	Inadequate procedures to prepare the Schedule of Expenditures of Federal Awards (SEFA)	N/A	2	96-97	Procedures are in place; fiscal year end 1998 process went well; supervisor in charge of report left prior to completion of report; FY98 report had fewer errors Will correct in FY99 report.
10.551	Food Stamps	13-11	Noncompliance with CMIA	N/A	2	96-97	A July 1, 1998, amendment to the CMIA reflected the methods used to draw funds. A new CMIA agreement, dated July 1, 1999, is in place.
10.551	Food Stamps	13-14	Inadequate quality control procedures	N/A	1	96-97	
10.555	NSLP (National School Lunch Program)	1-3	Inaccurate meal eligibility claims	N/A	1	96-97	
10.555	NSLP	1-6	Incorrectly reporting time & effort	N/A	1	96-97	
10.557	Special Supplemental Nutrition Program for WIC	13-1	Noncompliance with accounting policy	N/A	2	96-97	WIC rebate receivables are recorded as offsets to the expenditure accruals, which is how these are budgeted. The department will request a change during the next budget process.
10.557	Special Supplemental Nutrition Program for WIC	13-11	Noncompliance with CMIA	N/A	2	96-97	A July 1, 1998, amendment to the CMIA reflected the methods used to draw funds. A new CMIA agreement, dated July 1, 1999, is in place.
10.558	Child & Adult Care Food Program	13-11	Noncompliance with CMIA	N/A	2	96-97	A July 1, 1998, amendment to the CMIA reflected the methods used to draw funds. A new CMIA agreement, dated July 1, 1999, is in place.

Category of Corrective Action Taken:
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Questioned Costs: 4 Known questioned costs or likely questioned costs are greater than $10,000

STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30,1999

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
10.561	State Adm Matching Grants for Food Stamps	13-2	Improper expenditure accruals	N/A	1	96-97	
10.561	State Adm Matching Grants for Food Stamps	13-10	Inadequate procedures to prepare the SEFA	N/A	2	96-97	Procedures are in place; fiscal year end 1998 process went well; supervisor in charge of report left prior to completion of report; FY98 report had fewer errors. Will correct in FY99 report.
10.561	State Adm Matching Grant for Food Stamps	13-11	Noncompliance with CMIA	N/A	2	96-97	A July 1, 1998, amendment to the CMIA reflected the methods used to draw funds. A new CMIA agreement, dated July 1, 1999, is in place.
10.567	Food Distribution Program on Indian Reservations	13-12	Inadequate subrecipient monitoring procedures	$4,158	2	96-97	The department is reviewing this issue and will resolve it by April 30, 2000.
10.567	Food Distribution Program on Indian Reservations	13-15	Inadequate procedures to allocate shared costs among benefiting grants	N/A	1	96-97	
	U. S. DEPARTMENT OF THE INTERIOR						
15.252	Abandoned Mine Land Reclamation (AMLR) Program	6-1	Inadequate subrecipient monitoring procedures	N/A	2	96-97	The department has developed A-133 compliant procedures to monitor subrecipients. However, the procedures have not been in place long enough to determine if they are fully implemented.
15.605	Sport Fish Restoration	12-2	Inadequate procedures to ensure federal requirements on construction	$26,676	1	96-97	
15.916	Outdoor Recreation: Acquisition, Development and Planning	12-2	Inadequate procedures to ensure federal requirements on construction	$42,477	1	96-97	
	U. S. DEPARTMENT OF LABOR						
17.225	Unemployment Insurance	4-1	Noncompliance with CMIA	N/A	1	96-97	
	U. S. DEPARTMENT OF TRANSPORTATION						
20.205	Highway Planning & Construction	9-1	Inadequate subrecipient monitoring procedures	N/A	2	96-97	MDT met with staff responsible for the federal programs and notified them of the federal regulations; contract language was modified to

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30,1999

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
							comply with OMB Circular A-133 requirements. Program personnel are in the process of developing procedures for monitoring subrecipients.
20.205	Highway Planning & Construction	9-2	Unallowable expenditures charged to grant (FY 1995-96)	$44,668	1	96-97	
20.205	Highway Planning & Construction	9-3	(FY 1996-97) Noncompliance with CMIA	$58,971 N/A	2	96-97	MDT's revised procedures recommended in the previous audit were based on discussions and suggestions from the Legislative Audit Division. To ensure compliance with this audit recommendation, MDT will work with the Department of Administration in implementing proper procedures.
	U. S. ENVIRONMENTAL PROTECTION AGENCY						
66.458	Capitalization Grants for State Revolving Funds	6-1	Inadequate subrecipient monitoring procedures	N/A	2	96-97	The department has developed OMB Circular A-133 compliant procedures to monitor subrecipients. However, the procedures have not been in place long enough to determine if they are fully implemented.
	U. S. DEPARTMENT OF EDUCATION						
84.010	Title I Grants to Local Educational Agencies	1-6	Incorrectly reporting time & effort	N/A	1	96-97	
84.027	Special Education –Grants to States	1-6	Incorrectly reporting time & effort	N/A	1	96-97	
84.032	Federal Family Education Loans	8-4	Incorrectly reporting time & effort	N/A	1	96-97	
84.048	Vocational Ed – Basic Grants to States	1-4	Inaccurate reimbursed administrative costs	N/A	1	96-97	
84.048	Vocational Ed – Basic Grants to States	1-5	Incorrect indirect cost rates	N/A	1	96-97	
84.048	Vocational Ed – Basic Grants to States	8-2	Noncompliance with CMIA	N/A	2	96-97	Partially corrected - due to turnover of staff.
84.048	Vocational Ed – Basic Grants to States	8-3	Inaccurate federal report	N/A	1	96-97	

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30,1999

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
84.048	Vocational Ed – Basic Grants to States	8-4	Incorrectly reporting time and effort	$2,751	1	96-97	
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	13-11	Noncompliance with CMIA	N/A	2	96-97	A July 1, 1998, amendment to the CMIA reflected the methods used to draw funds. A new CMIA agreement, dated July 1, 1999, is in place.
	U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
93.558	Temporary Assistance for Needy Families	13-2	Improper expenditure accruals	N/A	1	96-97	
93.558	Temporary Assistance for Needy Families	13-10	Inadequate procedures to prepare the SEFA	N/A	2	96-97	Procedures are in place; fiscal year end 1998 process went well; supervisor in charge of report left prior to completion of report; FY98 report had fewer errors. Will correct in FY99 report.
93.558	Temporary Assistance for Needy Families	13-17	Inaccurate procedures to prepare federal reports	$3,322[4]	1	96-97	
93.560	Family Support Payments to States – Assistance Payments	3-1	Incorrect assistance payments	$8,614	2	96-97	DOC is developing a computer system that will streamline the foster care process and will interface with DPHHS.
93.560	Family Support Payments to States – Assistance Payments	10-7	Inadequate procedures to ensure proper funding source selection	N/A	1	96-97	
93.560	Family Support Payments to States – Assistance Payments	10-8	Inadequate procedures to record client eligibility history	$356[4]	2	96-97	Program logic error identified. Request for programming change is ranked as a number one priority; the implementation date cannot be estimated.
93.560	Family Support Payment to States – Assistance Payments	13-2	Improper expenditure accruals	N/A	1	96-97	
93.560	Family Support Payments to States – Assistance Payments	13-9	Unreconciled child support payment systems	N/A	2	96-97	The department is now determining what remains to be reconciled, developing written procedures, determining report needs from the system and assigning the work to appropriate staff and/or contracting out the work.
93.560	Family Support Payments to States – Assistance Payments	13-11	Noncompliance with CMIA	N/A	2	96-97	A July 1, 1998, amendment to the CMIA reflected the methods used to draw funds. A new CMIA

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30,1999

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
							agreement, dated July 1, 1999, is in place.
93.560	Family Support Payments to States – Assistance Payments	13-14	Inadequate quality control procedures	N/A	1	96-97	
93.560	Family Support Payments to States – Assistance Payments	13-17	Inaccurate procedures to prepare federal reports	N/A	1	96-97	
93.563	Child Support Enforcement Title IV-D	13-2	Improper expenditure accruals	N/A	1	96-97	
93.563	Child Support Enforcement Title IV-D	13-11	Noncompliance with CMIA	N/A	2	96-97	A July 1, 1998, amendment to the CMIA reflected the methods used to draw funds. A new CMIA agreement, dated July 1, 1999, is in place.
93.568	Low Income Home Energy Assistance	13-11	Noncompliance with CMIA	N/A	2	96-97	A July 1, 1998, amendment to the CMIA reflected the methods used to draw funds. A new CMIA agreement, dated July 1, 1999, is in place.
93.575	Child Care & Development Block Grant	13-2	Improper expenditure accruals	N/A	1	96-97	
93.575	Child Care & Development Block Grant	13-10	Inadequate procedures to prepare the SEFA	N/A	2	96-97	Procedures are in place; fiscal year end 1998 process went well; supervisor in charge of report left prior to completion of report; FY98 report had fewer errors. Will correct in FY99 report.
93.575	Child Care & Development Block Grant	13-11	Noncompliance with CMIA	N/A	2	96-97	A July 1, 1998, amendment to the CMIA reflected the methods used to draw funds. A new CMIA agreement, dated July 1, 1999, is in place.
93.658	Foster Care – Title IV-E	3-1	Incorrect assistance payments	$7,088	2	96-97	DOC is developing a computer system that will streamline the foster care process and will interface with DPHHS.
93.658	Foster Care – Title IV-E	10-1	Inappropriate user access to CAPS system	N/A	1	96-97	
93.658	Foster Care – Title IV-E	10-2	Inappropriate production & data access to CAPS system	N/A	2	96-97	PHHS requested a system change from the external system provider. The provider ranked the change order as a number one priority.
93.658	Foster Care – Title IV-E	10-3	Inadequate intake procedures to ensure completeness & accuracy of data	N/A	1	96-97	

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30,1999

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
93.658	Foster Care – Title IV-E	10-4	Inadequate procedures to review & correct data entry process errors	N/A	2	96-97	An enhancement to the systems has been requested and ranked as a number one priority; an implementation date cannot be estimated.
93.658	Foster Care – Title IV-E	10-5	Inadequate procedures to review special transportation services	N/A	1	96-97	
93.658	Foster Care – Title IV-E	10-6	Inadequate authorization controls over CAPS system	N/A	1	96-97	
93.658	Foster Care – Title IV-E	10-7	Inadequate procedures to ensure proper funding source selection	N/A	1	96-97	
93.658	Foster Care – Title IV-E	10-8	Inadequate procedures to record client eligibility history	N/A	2	96-97	Program logic error identified. Request for programming change is ranked as a number one priority; the implementation date cannot be estimated.
93.658	Foster Care – Title IV-E	10-9	Inadequate reconciliation procedures from CAPS to state accounting system	N/A	2	96-97	CAPS is unable to provide the information needed to adequately reconcile CAPS to SBAS from implementation of the system in Feb. 1996 to July 1997 when more detailed reporting information was provided. The department is researching alternative means for reconciling the two systems.
93.658	Foster Care – Title IV-E	13-2	Improper expenditure accruals	N/A	1	96-97	
93.658	Foster Care – Title IV-E	13-3	Inadequate application controls	N/A	3	96-97	CFSD hired a liaison staff person and formed a financial prioritization committee that has provided for more focus on financial issues related to CAPS; as a result, no change was made to the committee structure.
93.658	Foster Care – Title IV-E	13-4	Incorrect foster care payments	N/A	1	96-97	
93.658	Foster Care – Title IV-E	13-5	Noncompliance with federal matching requirements	$8,956	1	96-97	
93.658	Foster Care – Title IV-E	13-6	Ineffective procedures for accounting computer system reconciliations	N/A	2	96-97	Reconciliations completed on a monthly basis in FY98; reconciliations not complete in FY99 due to turnover and implementation of new accounting

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30,1999

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
							system; staff hired in September and reconciliation work plan is being implemented.
93.658	Foster Care – Title IV-E	13-7	Inadequate separation of duties	N/A	2	96-97	This was implemented; however, upon review, auditors now indicate that too many people are involved and the process is inefficient.
93.658	Foster Care – Title IV-E	13-10	Inadequate procedures to prepare the SEFA	N/A	2	96-97	Procedures are in place; fiscal year end 1998 process went well; supervisor in charge of report left prior to completion of report; FY98 report had fewer errors. Will correct in FY99 report.
93.658	Foster Care – Title IV-E	13-18	Incorrect time & effort reporting	$305[4]	1	96-97	
93.667	Social Services Block Grant	13-11	Noncompliance with CMIA	N/A	2	96-97	A July 1, 1998, amendment to the CMIA reflected the methods used to draw funds. A new CMIA agreement, dated July 1, 1999, is in place.
93.778	Medical Assistance Program	13-1	Noncompliance with accounting policy	N/A	2	96-97	Medicaid drug rebate receivables are recorded as offsets to the expenditure accruals, which is how these are budgeted. The department will request a change during the next budget process.
93.778	Medical Assistance Program	13-2	Improper expenditure accruals	N/A	1	96-97	
93.778	Medical Assistance Program	13-10	Inadequate procedures to prepare the SEFA	N/A	2	96-97	Procedures are in place; fiscal year end 1998 process went well; supervisor in charge of report left prior to completion of report; FY98 report had fewer errors. Will correct in FY99 report.
93.778	Medical Assistance Program	13-11	Noncompliance with CMIA	N/A	2	96-97	A July 1, 1998, amendment to the CMIA reflected the methods used to draw funds. A new CMIA agreement, dated July 1, 1999, is in place.
93.778	Medical Assistance Payments	13-14	Inadequate quality control procedures	N/A	1	96-97	
93.959	Block Grants for Prevention & Treatment of Substance Abuse	13-11	Noncompliance with CMIA	N/A	2	96-97	A July 1, 1998, amendment to the CMIA reflected the methods used to draw funds. A new CMIA

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30,1999

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
							agreement, dated July 1, 1999, is in place.
	SOCIAL SECURITY ADMINISTRATION						
96.001	Social Security – Disability Insurance	13-11	Noncompliance with CMIA	N/A	2	96-97	A July 1, 1998, amendment to the CMIA reflected the methods used to draw funds. A new CMIA agreement, dated July 1, 1999, is in place.

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1 Findings have been fully corrected 2 Findings have not been corrected or are partially corrected 3 Corrective action taken is significantly different than reported.
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